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THE ECONOMICS OF BOOKS

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Abstract

The tensions between books and book markets as expressions of culture and books as products in profit-making businesses are analysed and insights from the theory of industrial organisation are given. Governments intervene in the market for books through laws concerning prices of books, grants for authors and publishers, a lower value-added tax, public libraries and education in order to stimulate the diversity of books on offer, increase the density of retail outlets and to promote reading. An overview of the different ways by which countries differ in terms of market structures and government policies is given. Particular attention is paid to retail price maintenance. Due to differences between European countries it is not a good idea to harmonise European book policies. Our analysis suggests that the book market seems quite able to invent solutions to specific problems of the book trade and that, apart from promoting reading, there is little need for government intervention.

Keywords: books, publishers, authors, diversity, monopolistic competition, retail price maintenance, subsidies, libraries, Internet

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1. Introduction

Goods and services in the area of art and culture have a special character. This combined with market failures may provide grounds for government intervention. The nature of intervention depends on the characteristics of the art and culture involved and on the potential failures of the market to provide an adequate and diverse enough supply of goods and services. Books are sufficiently different to warrant special attention from other cultural goods and services. According to a 1964 UNESCO definition, a book is a 'non-periodical, printed publication consisting of at least 49 pages, excluding cover pages'. Usually, three categories of books are distinguished: educational books, scientific books and general books. Educational books are intended as a means of learning for the institutionalised educational system up to higher vocational training, often based on government rules and regulations. Scientific books aim at users starting from higher vocational training. General books are all those books that are not educational or scientific books. Each category of books has its own characteristics and warrants different treatment. In this chapter we focus primarily at a sub-category of general books: cultural books. There are many other general books, such as cookbooks, travel guides or commercial fiction, which do not merit the interest of ministers of culture. With cultural books there is always a tension between books as instruments of culture and books as products in a profit-making business as recognised by the Director-General of UNESCO at the World Book and Copyright Day, 23 April 2002:

> *"Being one of the oldest means of communication and distribution, books not only have spiritual, educational and cultural implications, but also involve the legitimate industrial and economic aspects of the publishing trade. The association of these two factors – cultural impact and economic interests – results in a complex system of parameters that may seem incompatible. Developing the publishing and reading universe requires understanding of the existing internal relations between the different elements comprising the book chain: literary intervention, the respective functions of the publisher, printer, distributor and bookseller, and the reader."*

Governments influence book markets through subsidies for libraries, authors and publishers, tax concessions on the sale of books, and laws concerning the pricing of books. This chapter first provides an overview of differences between countries in terms of market structures and reading behaviour. Section 3 discusses the special features of the book market and stresses the importance of principles such as *Nobody knows, Time flies, A-list/B-list* and *Infinite variety* put forward by Caves (2000). Section 4 discusses the grounds for government intervention. The market is quite capable of inventing solutions to specific problems of the book market (think of contracts for authors, literary agents, gate keeping by publishers, joint distribution by cooperating wholesalers on distribution, agreements about stocks between retailers and publishers, joint publicity, best-seller lists, reviews, etc.). Apart from stimulating reading, it is

not clear what role there is for government intervention. The *piece de resistance* as seen by most people in the cultural sector and among ministers of culture primarily in Europe is rightly or wrongly the fixed book price agreement. Section 5 therefore provides a critical appraisal of retail price maintenance and fixed book price agreements. Section 6 discusses a whole spectrum of different government policy instruments to stimulate reading and to promote the diversity of publishing and distribution. It also gives some empirical details. Section 7 argues that the cultural and economic characteristics of countries are different and thus that different policy instruments are called for to influence the book market in different countries. Section 8 concludes with a summary of results and suggestions for further research.

2. Cross-country statistics and trends

2.1 General overview

To illustrate general trends in the book market and highlight differences between countries, this section presents stylised facts for 20 OECD countries. International comparative information about the book market is scattered and it is difficult to get a full overview for all countries. Although the focus is on cultural books, statistical information is only available for all books or by a different classification (e.g., the Universal Decimal Classification – UDC). Furthermore, due to differences in definitions and measurement it is difficult to compare countries at a particular moment in time or to compare differences within a country across time periods. Nevertheless, on the basis of the general overview information presented in Table 1, some clear cross-country differences are visible in book reading, book production, and book services provided by public libraries.

There are big differences in book reading. About half of the Portuguese adults never read a book, in sharp contrast with about 20 percent of adults in Belgium, Denmark, Italy and Norway. Reading is popular in Finland, Sweden and Switzerland where about 90 percent of the adults reads a book. Nevertheless, even in Sweden almost 30 percent did not read a book in the past year. In Portugal only 15 percent, while in Belgium about a quarter of adults read a book last year. Although in most countries a majority of the adults reads books, there are thus also large numbers of people that never read a book. Of those that read a substantial part read a book only every now and then.

From UNESCO sources statistical information is available for the number of book titles. Book titles are non-periodic publications published in a particular country and made available to the public. They refer to both first editions and re-editions. The term ‘title’ is used to designate a printed publication which forms a separate whole, whether issued in one or several volumes. Different language versions of the same title published in a particular country are considered as individual titles. Table 1 presents cross-country differences in book title production, separately for ‘arts and culture’ and for all book titles. The data refer to the

most recent information available, that is the period 1996-99. At the low end of the distribution of per capita book title production is the US, that produced 24 book titles per 100,000 inhabitants of which 6 concern arts and culture titles. At the high end of the distribution Denmark produces 275 titles per 100,000 inhabitants, of which 80 concern arts and culture titles. Most titles per inhabitant are produced in the Scandinavian countries, in Switzerland, and in the UK. Relatively few titles were produced in the Italy, Japan, Greece and Australia.

For most of the countries for which information is available, the average annual number of books sold per inhabitant is about 5 to 6. The exceptions at the lower end are Portugal with an average of 2.6 books per inhabitant and Sweden with an average of 3.6 books per inhabitant, while at the high end there is the France with an average of 6.9 books per inhabitant. Publishers' revenues from book sales also vary a lot from a low 20 Euro per inhabitant in Greece to a high 115 Euro per inhabitant in Finland. In most of the countries presented the revenues from book selling are about 40 to 60 Euro per inhabitant. In terms of GDP the book publishing industry is not very important. It contributes at most 0.1-0.2 percent (in the UK). In absolute terms the largest industries are in the USA, Germany, the UK, France, and Italy. The book publishing industry had in 2001 a value added of about 0.11 percent of GDP and employed more than 140,000 in the EU-15. The book publishing industry is stable in terms of turnover and per capita sales. Books thus remain popular with readers and have not lost out to other media (see EC (2004)).

Finally, Table 1 provides information about cross-country differences in services provided by public libraries. As shown, the number of books available through public libraries is low in Greece, Italy, Portugal and Spain. In these countries there is at most one book per inhabitant. In Denmark, Finland, and Sweden there are more than five books per inhabitant available through public libraries. The number of loans per inhabitant correlates highly with the number of books available through public libraries. This number ranges from less than one in Greece, Portugal, Spain and Switzerland to at least ten in Denmark, Finland, and the Netherlands.

2.2 A closer look at book reading

People read books in a variety of ways. They read books at home for leisure reasons as a main activity, perhaps sitting in a comfortable chair and forgetting the world around them. They also read at work, while travelling, during holidays, etcetera. To find out how much time individuals read one has to clearly define time spent reading. This is especially important when different activities are performed simultaneously, say reading and travelling or reading and listening to music. Furthermore, reading may not be distributed evenly across the year. Some people may read on a regular basis while others may read especially during holidays.

Reading time measured as a regular activity in a typical week leads to a much lower estimate than reading time measured as the product of the number of books read and the average time spent reading a book. In time use surveys it is therefore not easy to establish how much time individuals spend reading. While comparing results within the same time-use survey is easy, cross-comparisons between different surveys is cumbersome.

Table 2 presents information about the frequency of reading as measured in the IALS, which is based on similar surveys for each of the countries involved. Cross-country comparison is thus informative. As shown, differences in book-reading frequency are clear and large. Reading a book daily varies from about a quarter of all adult males in Australia, Canada, Ireland, Sweden, Switzerland, UK and US to a mere 5 percent of all Portuguese male adults. For most of the countries 10-20 percent of the adult males read a book daily. There are clear cross-country differences in reading habits. However, a common element is that females read books substantially more often than males. For females the share of daily readers is higher in all countries. The differences in reading behaviour are smallest in Belgium (Flanders) and Portugal. The differences in daily reading frequency between males and females are very large in Australia, Canada, Denmark and the Netherlands. In the Netherlands, for example, 18 percent of males and 34 percent of females read books daily.

Cross-country differences in reading behaviour are present already at a young age. Table 2 also presents the reading behaviour of 15-year old children. Greece and Finland are countries where many children like to read. In these countries the share of children that read at least one hour every day is also relatively high. There are also differences in reading behaviour between adults and children. Portuguese adults do not seem to like reading, but only few Portuguese children do not like to read for fun and a high share of children read at least one hour every day.

Education is also an important determinant of reading habits but here no systematic cross-country information is available. For reasons of illustration we present information for two countries, France and Italy (see www.readingeurope.org). In a survey on reading behaviour in France among the population of fifteen years and older it appeared that on average 71 percent read at least one book during the past twelve months excluding professional books and educational books (slightly different from the number in Table 1, which refers to reading at home). For individuals with lower education this percentage is 62 percent, for medium-educated individuals 78 percent, and for high-educated individuals 93 percent. The same differences in reading behaviour are present for Italy in a survey among the population of six years and older. In Italy on average 44 percent of the population indicated having read a book in the past year; for low educated this is 32 percent, for medium educated 64 percent, and for high educated 82 percent.

There is not much cross-country information concerning trends in reading. We use information about the Netherlands as an illustrative example of what might happen in other countries. As shown in Table 3, for the Netherlands there is a clear downward trend in book reading. On average for males the number of hours per week spent reading decreased from 1.4 in 1975 to 0.7 in 2000. For females they went down from 1.9 in 1975 to 1.2 in 2000. Fewer people indicate that they read books. Nevertheless, of those that read books, the average time spent on reading books has hardly changed, and remained 3-3.5 hours per week. What happened is that the share of the population that reads books went down substantially. The lower part of Table 3 gives similar information for other countries. Females are more likely to read than males, but conditional on reading there is not much difference between males and females. Furthermore, for the countries presented, Finland, Germany, Norway, Sweden, and the UK, the main differences in reading behaviour refer to the participation in reading and not to the time spent reading by readers. All readers irrespective of gender or country spend about 6.5-8 hours per week reading books.[1] People spend most their time watching television in Europe. However, trends in the US suggest that Internet use is increasing, mainly at the expense of watching television rather than reading (EC (2004)).

2.3 Producing books and selling them

Table 4 shows that during the past decades production of book titles increased in all countries presented, but there are differences between countries. From the mid 1970s to the late 1990s there was virtually no increase in Norway and relatively mild increases in Austria, France, Greece and Sweden. In contrast, book title production more than doubled in Belgium, Finland, Spain and the UK. Although the number of titles produced increases each year in most countries, the number of enterprises is stable. The average size of a publishing enterprise in the EU is small. Most publish only between 20 and 40 titles per year (EC (2004)).

Differences between countries concerning the number of titles published may be related to economic prosperity, to the educational level of the population, or to population density. With rising incomes people may buy more books, which may boost the supply of book titles. Figure 1(a) shows a cross-country comparison of the relationship between titles and GDP both on a per-capita basis. There seems to be a positive relationship, but it is not very strong. Countries with a low per-capita GDP, such as Greece, Portugal and Spain, have the lowest numbers of per-capita book titles. Among the countries with a higher per-capita income there is a lot of variation. The US, for example, has a lower per-capita book title production than some southern European countries with half the per-capita income of the US.

[1] In the Netherlands reading participation is much higher but hours read per week per reader is lower. This is likely to be a measurement issue. The number of hours read per capita in the Netherlands is similar to other countries.

Figure 1(b) shows that there is also a positive relationship between the average educational level of a population and the number of titles produced. Again, the relationship is not very strong. Countries with a low average schooling level, such as Portugal, Greece, Spain and Italy, have fewer book titles per inhabitant, but among the countries with a higher educated population there is again a lot of variation. Figure 1(c) shows that there is no association between book titles and population density. Although in less densely populated countries it may be that for part of the population no book shop is in the neighbourhood, this does not seem to affect the number of book titles produced.

In terms of book title production distinguished by UDC class the most important categories in each of the countries presented are social sciences, applied sciences and literature. Nevertheless, in terms of distribution of titles across UDC classes, there are big cross-country differences. In Austria, Canada, Portugal and Switzerland more than a quarter of all book titles concern social sciences. In France, Greece, Norway, Portugal and Spain more than 30 per cent of all book titles concerns literature. In other countries the distribution of book titles across the three main categories is more even. Table 5 shows that in the late 1990s in Canada, Finland and Germany only 20-25 percent of all titles concerned arts and literature. For countries such as Greece, Norway, and Portugal 45-50 percent of all book titles concern arts and literature. Table 5 also shows the evolution of the number of titles in arts and literature since 1975. The share of titles in arts and literature changes but no clear patterns emerge. For some countries, e.g., Belgium, France, Norway and Portugal, the share of literature titles increases a lot, but in Sweden and the UK there is a decline.

EC (2004) presents a recent overview of the European book market. The total sales value of books in European book markets equals about 27 billion Euro in 2000. The biggest market by sales value is Germany with around 9.5 billion Euro (2000/01). Book sales in the UK were around 5.5 billion Euro (2002). Both Germany and UK are strong exporters of books to countries that share their languages. Other large book markets are found in France, Spain, and Italy. During the first two years of this decade, the UK book publishing industry has grown to be the largest in Europe. In contrast, there has been a decline in the German book publishing industry.

Table 6 provides some information about publishers' revenues distributed by type of books and by distribution channel. The upper part presents the distribution of publishers' revenue by type of book in four categories, namely primary and secondary text books, scientific books (college, higher education, university, reference, dictionaries, encyclopaedias and professionals), general books, and children's books. About half the revenues in most countries come from general books. In Denmark and Italy the revenue share of general books is about 65-70 per cent, although in Ireland it is only about 30 per cent.

The lower part of Table 6 shows the distribution of revenues by distribution channel. Most of the sales are through retail channels (trade), except in the US where the share of direct sales is higher than the share of sales through retail channels. In the other countries for which information is available 60-80 percent of sales is through retail channels. In some countries there are strong retailers, but in others there are many independent bookshops. In France, the multimedia retailer Fnac accounts for around 15 percent of the books sales. In Italy Feltrinelli commands 25 percent of the retail market (see EC (2004)). However, in Germany, the largest bookseller Thalia has only 3 percent of the market and there are many small independent bookshops. The largest retailers in the UK book market in 1998 were Waterstones with 20 percent and WH Smith with 18 percent of the market (Latcovich and Smith (2001)). As in Europe the US book industry has limited opportunities for growth in a mature market and competition is focused on growth through market shares (see also Szenberg and Lee (1994), Greco (1999, 2000) and Clerides (2002)) . The US has seen consolidation among retail chains. Barnes and Noble commands 30 percent of the market and independent booksellers struggle to compete in the market (EU (2004)).

Table 6 shows that the share of book clubs is high in Australia (26 per cent), about 15-20 per cent in Denmark, Finland, France, and Sweden and low in Italy, UK and US (less than 10 per cent). Although Internet sales have grown in importance, they are still rather small. In the UK around 17 percent of book sales are through Internet retailers (mainly Internet bookshops such as Amazon.com), a percentage that is no longer thought to be growing very fast. For Germany estimates suggest between 4 and 5 percent of sales are made through Internet retailers, although recent growth has been much faster than it has in the UK. Some reports have estimated internet sales in France as low as 1 percent and in Italy at 1.5 percent. Spain has even lower Internet sales than France.

Internet is mainly used as a marketing channel for books and so far not as a channel to deliver digital products. For example, E-books are not sold much in the European market. In the US E-books are more important; over 7,000 E-book titles were published in 2003 while over 1.3 million E-books were sold. The concentration level in the world wide online book market is high; Amazon.com has about 60 percent of the market (see Latcovich and Smith (2001) and also Table 7).

Finally, Table 8 presents imports and exports of books for 1970, 1985 and 1995. Clearly, Germany, Italy, Spain and the UK are big book exporters whereas Austria and Switzerland are big book importers. This was the case in 1995 and 1985 but less so in 1970. Hence, the production of books has become more international in the past decades.

3. The characteristics of the book market

Section 2 yields a colourful but opaque picture. The book market seems to flourish in one dimension (production) but not in the other (reading). The functioning of the market and its impact on both reading and production is not so clear. However, missing data frustrate an empirically sound judgement on the functioning of the market. There are also substantial differences between countries, both in descriptive data (number of books, debutantes, Internet selling) as well as in government policies. To get a better grip on the functioning of the book market, we need to dig deeper into the nature of the market. So this section follows up on section 2 by zooming in on the nature of books and the book market.

3.1 Perspective from industrial organisation

Many cultural goods share a number of properties, e.g. in the words of Caves (2000): *nobody knows* (uncertain demand), *time flies* (short period of profitability) *infinite variety* and *A-list/B-list* (vertical differentiation). The relevant questions are: in what mix do these properties come in the case of books; to which problems does that give rise; in what sense does the market solve the problems; and finally is there a role left for the government?

Economics can shed light on these questions. A book is a private good, since its consumption is rival and excludable. This implies that at first blush there is no fundamental market failure, so that government provision is not a serious option. Books can be borrowed by other people. However, in so far as that yields utility to the owners, there is no market failure. The market for books has a traditional supply chain: production, wholesale, distribution and retail. In each part of the supply chain there is competition between private entrepreneurs. Government provision only occurs with libraries, but that does not exclude competition between private firms in the rest of the chain. There is substantial product differentiation in each part of the supply chain, which generates niche markets. Branding is important. Making a new product successful often requires substantial investment and innovation. This includes accepting that some products will never make it.

As a result of these features, most parts of the supply chain are characterised by a fairly large number of players. Consumers of books can easily switch from one product to the other. The book market knows relatively few consumer lock-ins, which helps the market to function properly. Transparency adds to that. Even though books are experience goods, author reputation, book reviews, book clubs and word-of-mouth create a fair amount of transparency. There is also a fair amount of dynamics, i.e., there is innovation, market shares fluctuate and there is entry and exit. An exception might be the European retail market, where government policy may have stifled innovation. From the perspective of industrial organisation, the characteristics of book markets are not that different from many other markets (Allen and

Curwen (1991)). This suggest that the book market should not be exempted from competition law. Still, in many countries retail price maintenance is tolerated (see section 5).

3.2 Differentiated products and uncertain prospects

What are the consequences of the above features? The book market seems to be characterised by monopolistic competition. It has the following features: (a) the products sold are differentiated; (b) firms set the price of the goods; (c) the number of sellers is large and each firm disregards the effects of its price decisions on the actions of its competitors; (d) entry is unrestricted. There then exists a trade-off between efficiency (exploiting scale economies by producing more of the same product type) and diversity. Depending on the parameterisations there could be either too much variety or not enough (e.g., Dixit and Stiglitz (1977)).

This notion can be illustrated by looking, for example, at the market for cereals. Consumers have a love for variety, but variety can come at a cost. Each individual cereal variety becomes more expensive. In addition, the market becomes less transparent. Since firms do not take the potential downside of the variety decisions on other firms into account (the business stealing effect), there could be a market failure and optimal product diversity is not guaranteed. The book market is different from the cereal market in the sense that consumers do not engage in repeated purchases in the same way as they do for cereals. Book consumers rarely buy the same book twice. This changes the traditional trade-off in the sense that it greatly reduces possibilities for exploiting economies of scale. This is particularly true in the light of *nobody knows.* This does not mean that the book market can never have too much variety, but the argument then rests on lack of transparency and not on the more common economies of scale argument. Unlike in standard monopolistic competition models, the book market is not characterised by repeated entry by publishers with each publisher filling a niche. It is books that occupy niches, not publishers. Publishers have a portfolio of authors and books that serve as a way of risk smoothing. Some books will make it while others will not, but publishers either have difficulties of forecasting the success or are happy to accept differences in success out of cultural motives. Additional complexities arise for two other reasons. First, the book market is also characterised by the fact that a single product (a book) has a very short life cycle. This is not unlike products that depend on fashion. Bertarelli and Censolo (2000) formalise the idea that firms exercise monopoly power for a short period of time, but then have to cut prices under influence of entry and 'running-out-of fashion'. Secondly, publishers may face a trade-off between risk smoothing and specialisation, that is a publisher specialised in science fiction may have a competitive edge to non-specialised publishers, but may face the extra risk that science fiction lovers switch to video games.

A publisher thus has a quickly changing portfolio of books. Its strategy consists of deciding on the portfolio (trading off risks and specialisation) and on the prices of the

portfolio. An 'industrial organisation' translation of portfolio may be economies of scope. In Ottaviano and Thisse (1999) multi-product firms in a monopolistic competitive market face the decision whether to engage in new product line (exploiting economies of scope) or not (reducing cannibalisation). Depending on the parameters, in such a market there can be too much or too little variety. This resembles the decision by a publisher whether to employ a new author in the same field as his current portfolio. Here too there is a trade-off between economies of scope and cannibalisation. Similarly, the publisher has to face up to the decision whether to engage in a new field or not. It is not clear whether the accumulation of the complex decisions by publishers generate too much or too little variety.

This trade-off, combined with publishers' differences in 'love for culture' leads to a mix of publisher types. There are specialised publishers, small publishers and large publishers. This has been the case for many years in many countries.

3.3 Other characteristics of books

There exist a number of features that distinguish books from other products (e.g., Appelman and van den Broek (2002), Throsby (2001), Cowen (1998) and van der Ploeg (this Handbook)). First, books are experience goods. One only learns the value after consumption. Second, books are characterised by high fixed and low marginal costs. Many other information goods markets share these two features. Third, some books are extremely successful, while most books are unsuccessful. The success is hard to forecast (the *nobody knows* principle). In some circumstances this leads to 'winner takes it all' economics as developed by Rosen (1981), but clearly not as extreme as in other information goods. Cowen (1998) reports that the number of copies sold in 1990 of the top-fifteen books only account for less than one percent of total sales. It also means that booksellers and publishers – should they wish to do so – can cross-subsidise higher-risk books with blockbusters. Indeed Appelman and van den Broek (2002) present evidence that such cross-subsidies exist. These potentially welfare-enhancing cross-subsidies can be thwarted by non-branch shops (typically supermarkets) which might use books as a sales product (see section 5). Fourth, the opportunity costs of consuming a book (i.e., time) typically outweigh the price of a book. This is one of the rare truly unique features of a book and implies a low price elasticity compared to other goods. See box below. Fifth, reading a book can be interpreted as a private investment in culture rather than consumption. Sixth, there is an (almost) free substitute for buying books, namely libraries. However, one can argue that the quality of the product is lower, which makes substitutability imperfect. Seventh, there is a public good nature associated with (the cultural value of) a book. Throsby (2001) mentions that a book (or more general art) can be seen as possessing option value ('I always have the option of buying a book'), existence value ('I like the fact that there exist books') and bequest value. Added to

this are (cf., O'Hagan (1998)) values associated with national identity, social cohesion, national prestige and the development of criticism and experiments. None of those values are (fully) reflected in the price, so that indeed the total value of books is higher than the sum of its prices. It turns out that these characteristics influence the way publishers, wholesalers, retailers and readers deal with each other.

Buying: the elasticity of the demand for books

There is a general notion that the market for best-sellers is price-elastic because best-sellers are for a wide audience including lower income groups. The market for books other than best-sellers is price-inelastic, because most of the buyers are in higher income-groups or need to buy the books for study purposes. Nevertheless, there are no detailed quantitative studies on the size of the price elasticity of the demand for books. There are a few studies on the price elasticity of total demand for books. Using data over the period 1977-87 Van Ours (1990) finds a book price elasticity of –0.8 for the Netherlands. Appelman and van den Broek (2002) find the same book price elasticity for the Netherlands using data over the period 1977-94. De Grauwe en Gielens (1993) find for Belgium a price elasticity estimated of the period 1983-91 of –0.6. Ecalle (1988) and Fishwick and Fitzsimons (1998) find a price elasticity of about -0.9. Hjorth-Andersen (2000) finds a much higher price elasticity for Danish books of –1.4, which would suggest that the demand for Danish books is highly elastic. Bittlingmayer (1992) finds an even higher price elasticity between -2 and -3 for the demand for individual books, which may be due to more substitution possibilities between different varieties of books than between books and other products. Books may also be close substitutes for other cultural goods. For example, the falling price of television and radio might have diverted demand away from books.

3.4 Authors, publishers, retailers and readers

The characteristics mentioned in the previous subsections create various problems. For most of these problems the market itself has found a solution. This subsection is organised around the solutions in various part of the supply chain.

(i) Author versus publisher

The properties listed above make the book market relatively simple (compared to other cultural markets, see Caves (2000)). A theatre production or movie is much more complex for a number of reasons. First there is the *motley crew* property. A play or movie involves a complex set of different professionals to interact. Second, the *nobody knows* and *time flies* principles are even more applicable to a play or movie than to a book. Third, the production costs of a play or movie are much higher than the production costs of a book. As a

consequence, movies and plays involve problematic financing, subsidies and complex contracts. See De Vany (this Handbook) for an explanation of the functioning of the particularly complex market for movies.

Authors and publishers share the risk associated with the *nobody knows* and *time flies* principles. This implies that authors get a percentage of the sales (typically 10 per cent) and a split of the gross profits (typically 58-42) between author and publisher. Only with celebrity authors or authors with a strong reputation, there are advances (which can be substantial). While celebrity authors do reduce the risk of publishers somewhat, there are also serious large scale flops. Clinton's *Between Hope and History* saw 70 percent of copies shipped to bookstores returned unsold (e.g., Caves (2000)).

Changing the terms of the contract either in favour of the author or the publisher can lead to misallocations. A higher fee for the publisher leads to a higher number of books, less commercial success per book on average and less transparency for the readers. This could be justified if the perception is that there is a lack of supply of books. There is no evidence of that however. A higher percentage for the authors implies higher risk for the publishers, less books and less possibilities for debutantes. Section 2.3 told us that there is substantial variation in the production of books even corrected for various underlying factors such a GDP per capita or education. This indicates that it is not clear whether any given country is in the 'right' equilibrium.

In a simple world a contract, as described above, would do and there is not much more to say on the matter. The world is not so simple though. One reason is that incentives differ between publishers and authors. Publishers want to make money. After a publisher has decided to accept a certain manuscript (even some potentially low selling poetry) it still wants to make as much money as possible. Even the culture-loving publisher wants to use opportunities of money making to compensate for the failings; otherwise the publisher simply does not survive. This can contrast with the interest of authors. Although publishers wish to maximise profits, authors want to maximise sales and impact. The reason has all to do with the payment schemes of the authors. Authors receive a certain percentage of sold books, but can supplement this with other sources of income. The potential of related side incomes (lectures, TV, film, Internet) has grown. With globalisation and Internet the possibility of superstar incomes for authors has become a real possibility. The increased importance of media makes it easier for authors to leverage their reputation into sources of income. Indeed, Coser et al. (1982) suggest that there is asymmetry of power with publishers having the right to refuse to publish even after accepting a manuscript, but there seem to be sufficient countervailing powers. Authors can switch publishers, should they wish to do so. A large number of debutantes find their way to the book market. In addition, sales of a novel increase the probability of future sales, a factor that influences an author more than its publisher. As a

result of these differing incentives, authors may want to use agents. There is no marketplace for literary reputations of beginning authors. The chance that a publisher accepts a manuscript is extremely low (Caves(2000) mentions one in 15,000 for novels). The agents reduce the cost of the publishers by specializing in filtering out good and bad manuscripts. The publisher can then use the reputation of a good agent as a proxy for quality. The agents can also perform useful commercial activities for authors.

The differences in incentives have created a love-hate relationship between authors and publishers. Coser et al (1982, pp. 224-5) report a number of comical historical incidents:

> *"Thus, the nineteenth-century British prime minister and author Benjamin Disraeli, had received the unprecedented sum of ten thousand pounds from the house of Longman for his last work of fiction, Endymon (1880); when it did not sell as well as expected, he told an associate ´My conscience will force me to disgorge´ and offered Longman a new contract that virtually amounted to returning three thousand pounds to the firm. Longman at once replied that it ´could not think of availing [itself] of Beaconsfields [Disraeli] liberal and considerate suggestion´. But such instances of ´Apres vous Gaston´ are rare indeed."*

And at the other side of the spectrum:

> *"..a letter from the nineteenth-century writer of books on Japan, Lafcadio Hearn, to his New York publisher, Harper´s, (which had resented something Hearn had done): ´Please understand that your resentment has for me less than the value of a bottled fart, and your bank account less consequence than a wooden shithouse struck by lightning."*

The relationship between authors and publishers, on the one hand, and readers, on the other hand, can be better understood by considering the temporary monopolies created by the intellectual property rights of authors (see Plant (1934) and Landes and Posner (1989)). Copyright seems a strong feature of book markets.

(ii) Publisher-retailer

The properties of books also create problems in the relationship between retailers and publishers. Most notably, *nobody knows* and *time flies* create problems with stocks in retail outlets. If a book does not perform, the retailer wants to get rid of it as quickly as possible. Shelf space is scarce and new potentially successful books are looming. Market solutions to this problem include second hand sales shops ('ramsj'), scaling down (paperback version), pricing strategies and policies that aim at sharing risks between publishers and retailers. In many countries book retailers have a right of returning books for full credit (variants of this principle exist). Again, and similar to the contracts between authors and publishers, history has determined a sort of equilibrium here. Too much leeway to the retailers makes retailers

'lazy' and puts too much risks at the publishers side. Increasing the risk to the retailers also creates problems, perhaps not all covered by market solutions.

The retailers can further reduce risks by smart wholesaling agreements. There are distinct differences in market shares of wholesale firms in Europe. The largest wholesaler in the Netherlands has 70 per cent of the market. In France, Finland and Denmark the wholesale market is also concentrated. In Belgium it isn't and efficiency of distribution is lacking (EIM 2001). In Anglo-Saxon countries, on the other hand, wholesale is less concentrated, but there are many integrated firms (publisher and wholesale). The fact that publishers are larger makes it worthwhile for them to vertically integrate into distribution. All in all, there is no reason to believe that the market will necessarily fail to solve the co-ordination problems needed to sort out the economies of scale.

It remains unclear in what sense the retailing sector is in the 'right' equilibrium in any individual country. The fact that there are such large differences between countries in retailing – and these differences are very unlikely to reflect just differences in preferences - suggests that the market solutions to the problems created by the properties of books are most vulnerable in the retail sector. Indeed, the number of independent book retailers reduces and are replaced by chains (e.g., Epstein (2001)). We come back to this later on.

There also exists a trade-off between exploiting economies of scale in retail and other policy goals. Examples are the reduction of transportation costs for consumers or equity 'universal service' type of arguments. The hermit on the Shetlands wants his bookshop. This trade-off is, at least in Europe, also apparent in banking, where efficiency requires shutting down local outlets, potentially frustrating elderly people who value the service, and supermarkets where there is a trade-off between environmental and planning issues and efficiency of large stores. Various trends tilt towards scale. First and most importantly is the possibility of the Internet. Even more than banking and supermarket products, books are easy to sell on the Internet. Books are well-defined, easy to transport and personal contact with the seller is not (always) needed. In fact, interactive service and personal advice from Internet bookstores is often excellent. The storage, review and search possibilities are unlimited. The success of Amazon.com is no surprise - see Table 7. In Sweden the Internet sales were already 7 per cent of total sales in the year 2000 (e.g., EIM (2001)). See also Baumol (this Handbook) on the role of the 'New Economy' in Arts and Culture, and Soon-Yong, Stahl and Whinston (1998), Creemers (1999), Yetkiner and Horvth (2000), Klein (2000) and Goolsbee and Chevalier (2002) for a discussion of book retailing on the Internet.

(iii) Readers

Since the book is an experience good, consumers – when left to themselves - have a hard time deciding which book to buy. To facilitate the choices for consumers there are a number of

institutions, mainly independent experts in various outlets. First of all there are book reviews in newspapers and the Internet. Second, there are best-seller lists. Third, there is a fairly strong word-of-mouth culture. Fourth, there is some information transmitted through prizes and awards. Finally, there are book clubs, in which a seller pre-selects a number of titles. One of the best known clubs is the one associated with Oprah Winfrey's Book Club selections. The books chosen by Oprah often immediately hit the bestseller lists and are able to generate a lot of extra demand. For example, the first pick *Deep End of the Ocean* by Jacquelyn Mitchard was already on the market for some while and immediately became a top bestseller. All these institutions serve as intermediary between readers and the book sellers. There is no reason to believe that the market for information is failing, with the possible exception for a phenomenon called payola (see also Caves (2000)). Payola means that the author (or his agent) 'bribes' a gatekeeper to influence his choices. The phenomenon is best known in Radio channels for Pop music. Pluggers try to influence disc jockey's choice to create airplay. Payola makes sense if airplay leverages future incomes. Since the government does not want the media to lose its independence, it has forbidden payola (although it still prevails). In the book market payola is less prevalent and the argument runs through the best sellers list. An American consultant once bought so many copies of his own management book that he topped the best-sellers list for many weeks, leveraging his income in his regular consultant job. Another channel through which payola comes into play in the book market is through sticky prices. Chain bookstores can offer deals to book publishers to selectively display books in eye-catching positions. Caves (2000) mentions the following example:

> *"Barnes and Noble's 'Discover Great New Writers' program assures that a book appears face-out in every store for every two or three months and gets a review in a special brochure for $1,700 per title. … These practices have entered into the controversy between publishers and the traditional independent booksellers over promotional allowances and other terms that disproportionally benefit chains and superstores."*

Since payola runs against the – for culture - vital role of objectivity that gatekeepers perform, one is inclined to treat payola with scepticism.

3.4 Books and culture

The characteristics of sections 3.1 and 3.2 and the market solutions of section 3.3 lead to an assessment on how the book market performs in reaching cultural goals. The cultural goals are (i) a diversified portfolio of supply of books; (ii) books must be available for all, both in term of price and in terms of distance.

A diversified portfolio can imply several things, number of titles, number of genres, number of cultural titles or cultural genres. Similarly, availability (distance) can imply

number of retailers, (cultural) stock of the retailers or variety in retailing. Finally, availability in price may refer to the prices of books or the possibility of reading, in general or specified to cultural titles (Appelman and van den Broek (2002)). Obviously, difficulties in defining what cultural performance is, makes general assessments on this performance somewhat heroic.

There are a number of observations that help assessing the cultural performance of the book market. First, books are rival and excludable. They share this with other cultural goods (CD's), but not with all of them (radio, TV, monuments are non-rival, buildings are non-excludable). The consequence of this (already mentioned earlier), is that the book market is more 'normal' than some other cultural markets, and hence requires less government interference. It is also important in the light of discussion on technological trends. Some technological trends transform non-excludable or non-rival goods into excludable or rival goods (think of pay-TV again). For books these discussions are unnecessary, but with Internet one may expect a demand-driven growth in the sale of selected parts of handbooks and guidebooks. Second, books are reproductive cultural goods (unlike, say, the 'Nightwatchmen' by Rembrandt), implying that spreading books is easier than non-reproductive forms of art. Third, most fiction books are *not* luxury goods as much as visits to the opera. One reason is that there is not so much a social aspect to reading books. Another reason lies in the presence of libraries, even though higher educated people and higher incomes read more.

As a result, the market produces a large variety of books, with prices that are low enough (with libraries as a fallback as well) to make books available to everybody interested. O'Hagan (1998) and Cummings and Katz (1987) report that despite of this there are often additional policies towards arts directly aimed at equal access. We conclude that the market solutions, complemented with the presence of libraries, seem to be reasonably effective in reaching cultural goals, with the retailing sector as the most vulnerable part. This is a general assessment of the book market performance compared to other cultural markets. It does not say anything on the book market's cultural performance in any given country. From the empirical analysis in section 2.2 and 2.3 it follows that there are substantial differences in reading, production and retailing. These differences persist when correcting for factors such as GDP per capita and education. These differences are unlikely to be attributed only to differences in preferences. The assessment in this section points at existent market solutions to problems created by the characteristics of books. There are two possible explanations for these persistent differences. One is that some countries are in the wrong equilibrium. The fact that the market has solutions available to problems created by the characteristics of books, does not imply that these solutions are always used in a way that maximises social welfare. So it may well be the case that in some country retailers are unsuccessful in dealing with the stock risks, while retailers in another country are more successful. This may lead to e.g. too

few books, too few cultural books, too little reading or too many authors. Another explanation has to do with differences in public policy towards the book market.

4. Are there really grounds for government intervention in the market for books?

The economic arguments put forward in section 3 suggest that the market is quite capable of inventing solutions to specific problems of the book trade and public policies are not always called for, except perhaps to stimulate reading. Contracts give authors a percentage of sales revenue, which may induce them to write books with a ready audience. Publishers thus have an incentive to make profits and thus to market the book. There may be some conflict between authors and publishers if authors get most of their income from related activities. In that case, authors may prefer to give publishers a better incentive to maximise sales rather than profits. With educational books publishers try to generate demand by giving free samples of text books (e.g., Foster and Horowitz (1996)). Literary agents are crucial in markets with imperfect information as intermediaries between authors and publishers and other interested parties. Publishers are important as gate keepers to make sure that not too much material gets published for which there will be no demand. Wholesalers in the book market may cooperate in a joint distribution network and in joint publicity. The market may also find it profitable to cooperate in order to have best-seller lists and reviews to get a better functioning book market. Finally, given the uncertainties involved in stocking many books for small retailers, the markets may lead to agreements between retailers and publishers about taking unsuccessful stocks back.

Nevertheless, most authors and members of the publishing and booksellers trade stress that books are different from non-cultural commodities. They are or should be highly valued cultural goods, they say, and cannot be left to the whims of the market. Governments should shield books from the fierce and rough pressure of competition. Otherwise, only blockbuster novels will be sold and more esoteric books, perhaps highly valuable from a literary point of view, will not be published. The hope is to protect a dense network of well-stocked, high-quality bookshops and stimulate the publication of a large variety of books. The book lobby also argues that monopoly profits and cross subsidies from best-sellers to less popular books allow bookshops to store a greater variety of books and allow publishers to take more risks. Critics, in contrast, hear the sirens of those addicted to the delights of a protected market and argue that the book market is quite able to look after itself. Moreover, people involved in the book trade often argue for subsidies for struggling authors, translating novels, publishing unpopular, but culturally valuable books, and high-quality bookshops. The current practice in many European countries of a FBP in combination with a variety of subsidies handed out by literary funds can at most only partly be explained with economic

arguments. Indeed, the FBP is vigorously defended in countries such as the Netherlands and Germany and more broadly in the European Union primarily on cultural grounds.

Advocates of the FBP are critical of "the market" and suggest it leads to a money-oriented and one-sided society. The cultural lobby fear that culture will be "dumbed down" and may become part of the entertainment industry. It sees the market as detrimental to culture and fears the effects of the unbridled forces of the market on the diversity and quality of books being published and sold. The lobby argues that the market must be tamed to avoid losing high-quality bookshops and being left with only best-sellers and pulp. The lobby thus argues in favour of the FBP and subsidies for high-brow authors, publishers and bookshops.

Cowen (1998, Chapter 2) argues, however, convincingly that the market mechanism often works better and leads to more social welfare. The market produces an enormous variety of books, not just homogenous pulp. It is extraordinary how many niches for special tastes, both high culture and low culture, the book market caters for. Globalisation and the Internet allow economies of scale and reinforce the capacity of the global book market to produce diversity and variety. However, the book market may not function efficiently. For example, there may be public good aspects or positive externalities having to do with learning to read or to do arithmetic. Although most people are vehemently against state censorship of the written word, many are worried about negative externalities associated with books or magazines that promote violence against or sex with children. Clearly, the FBP or subsidies for authors, translations, bookshops and publishers are not the most appropriate instrument to fix these market failures. Even if the book market is efficient, there are serious equity issues if large parts of the population become unfamiliar with the written word. A FBP or subsidies for high-brow books may even be bad for the democracy of culture, since monopoly prices and cross subsidies for more esoteric books may be paid for by ordinary people reading ordinary books. This discourages buying and reading books by the general public. Furthermore, subsidies for authors, translators, bookshops and publishers are paid for by ordinary people who may not be interested in the more culturally valuable books or high-quality bookshops.

Governments may have different cultural objectives in mind when they intervene in the book market. They may wish to promote reading of worthwhile books and stimulate the production of a diverse palette of book titles. Governments may also be interested in maintaining an extensive network of high-quality bookshops with a wide range of culturally worthwhile book titles on the shelves. None of the countries investigated by EIM (2001) specified the objectives for interfering in the book market explicitly. Governments do not seem to wish to tie themselves down to explicit quantitative targets for the number of book titles and the number of bookshops. However, it is strange that governments do not specify whether they are content with the diversity of titles being published each year or not and

whether they are happy with the network of booksellers. It thus becomes very hard to evaluate the effectiveness and efficiency of the instruments used to attain cultural objectives.

Before we analyse fixed book price agreements, subsidies and other government policies, we clear up a misunderstanding often found in cultural circles about the value of culture and books in particular. Books may have aesthetic, decorative, spiritual, social identity, historical or symbolic value. However, we should be careful to distinguish these cultural values from the economic concepts such as use, exchange, status value or option value. Bibliophiles cherish the store value of some books, while society at large may be concerned with the option and bequest value of the written word for future generations. Many eloquent defenders of culture and the professional book community accuse economists of equating the value of books to the price of books. This explains a lot about the confusion and heated debates when economics and culture meet. Economists treat value as a subjective concept, namely the amount an individual person is willing to pay for a particular book. Typically, this is much more than what they actually paid for the book. In fact, the amount that people are willing to pay over and above what they actually paid - the consumer surplus - contributes to social welfare. Similarly, book suppliers may have been prepared to supply a given book at a lower price than the price they actually received on the market. This difference - the producer surplus - contributes to social welfare too.

5. Critical appraisal of retail price maintenance

Section 6 discusses various forms of government intervention in the book market. We first focus on the *piece de resistance* for most people in the book trade: the fixed book price agreement (FBP). This involves retail price maintenance, where the publisher reserves the right to set the retail prices of books. Since the publisher also influences wholesale prices, he effectively sets gross margins for retail outlets under the FBP. The cultural merits ascribed to such agreements has – like it or not - almost reached mythical proportions. No public debate in Europe on the cultural value of books is therefore complete without a discussion of the FBP. Tietzel (1995) and Rürup and Klopfleish (1997) provide a thorough analysis of the FBP with applications to Germany, Fishwick and Fitzsimons (1998) deal with the UK case, Hjorth-Andersen (2000) analyse the Danish situation, and Appelman and van den Broek (2002) discuss the FBP in the Netherlands. See also Ornstein (1985), Uitermark (1986) and Whyte (1994) and Ringstad (2004).

5.1 Welfare analysis

We first compare a competitive equilibrium (CE) with a monopoly outcome for the book market. We assess the effects of a FBP which lasts forever, so ignore that in some countries the FBP expires after a few years and then allows discounts and competition (see van der

Ploeg (2004)). The full cost of reading a book Q includes the price of the book and the sales tax, but also the opportunity cost of the time needed to read a book (ϕW where W is the wage and ϕ the hours spent reading books). Households use their time to work ($1-\phi B$) or read books (ϕB), where B is the number of books bought and read. There is no utility of leisure, but utility of taking time to read books. Utility is quasi-linear in consumption of other goods C, say $U(B)+C$ with $U'>0$, $U''<0$, and is maximised subject to the household budget constraint. Book demand follows from setting the marginal rate of substitution between books and other consumption goods equal to the ratio of the full cost of books to the price of other consumption goods. With quasi-linear preferences the marginal utility of private consumption equals one, so book demand follows from $U'(B)=Q$ or:

$$b \cong -\varepsilon\,[(1-\beta)\,(p+t) + \beta\, w] \text{ with } \varepsilon \equiv -\,Q/BU'' > 1/(1-\beta) \text{ and } 0 < \beta \equiv \phi W/Q < 1$$

where lower-case romans denote logarithmic deviations (e.g., $b \equiv dB/B$ except $t \equiv dT/(1+T)$), ε is the demand elasticity with respect to the full cost of reading a book, and β is the share of the opportunity cost of the time needed to read a book in the full cost. The demand elasticity, $\varepsilon(1-\beta)$, is less than ε, since the price is only part of the full cost of reading a book. To have positive marginal revenue, assume $\varepsilon(1-\beta)>1$.

Publishers/booksellers maximise profits, $PB - K(B) - F$ with $K'>0$ and $K''>0$, where $K(B)$ denotes variable costs and F fixed costs. Publishers/booksellers set prices above marginal cost, $P=K'\,\varepsilon(1-\beta)/[\varepsilon(1-\beta)-1] \equiv P^{**} > K'$. Prices are higher if the price elasticity is low, that is if few substitutes are available and the book price is only small part of the full cost. Booksellers may find price discrimination, whereby high-income earners get charged a higher price for books, profitable. They may also use hardbacks and paperbacks as a tool of price discrimination, especially if the former are less price elastic than the latter. Equilibrium sales are given by:

$$b = -\,\varepsilon\,[(1-\beta)\,(t+m) + \beta\, w]/[1+\varepsilon(1-\beta)\,K''\,B/K']$$

where m is the change in the mark-up. Book sales rise if the sales tax is cut or the wage falls.

Figure 2 shows the effects of the FBP. At the competitive equilibrium, P^* and B^*, willingness to pay is the area under the demand curve x+y+z+v+w+a+b, which is more than consumers actually pay v+w+a+b. Subtracting total production costs v+w+F, we obtain profits a+b-F plus the consumer surplus in competitive equilibrium x+y+z. Publisher/booksellers would have been prepared to deliver books below the equilibrium price. At the FBP equilibrium, P^{**} and B^{**}, willingness to pay equals x+y+a+v. Again subtracting

production costs v+*F*, we obtain profits of y+a-*F* plus the consumer surplus x. The loss in welfare resulting from the fixed book price is thus equal to the area of the familiar "triangles" z (the consumer loss if profits y are distributed to households) and b (the producer loss).

Under the FBP firms only publish/sell a particular book title if sales revenues y+a+v exceed costs v+*F*, that is if profits are positive or y+a>*F*. In competitive equilibrium an individual book title is published/sold if profits are positive, that is if a+b>*F*. If fixed costs *F* are very high, fewer book titles are published and sold because it is less likely that sales revenue minus variable costs will be high enough to cover fixed costs.

Since monopoly profits are higher than profits in competitive equilibrium (y+a-*F*>b+a-*F*), more book titles are profitable and are published/sold under the FBP than in competitive equilibrium. It is possible to print and sell extra books at low and almost non-increasing marginal cost, so the producer loss b is likely to be small. Also, the price elasticity of the demand for books ε is likely to be small as a large part of the full cost of reading is the opportunity cost of time. Hence, the monopoly mark-up is likely to be large and monopoly profits y are large. It thus seems likely that many more book titles are published under the FBP than under perfect competition. Some monopoly profits are necessary for marginal book titles to recoup fixed costs, which is not feasible under perfect competition. However, if a particular book title is published, fewer copies will be sold at a higher price than in competitive equilibrium. Even though the FBP leads to more variety in book titles published, prices will be higher and sales of each book title lower.

The FBP also has dynamic costs. Of course, price competition between retail outlets becomes impossible but it also is more difficult to vary prices in response to local conditions. A store on a remote island may want to charge more for the same book than a store in the capital, but under the FBP is constrained to charge the same. Also, it is more difficult to vary prices for different types of customers or for different seasons. Some customers desire no service and low prices, while others prefer service at a higher price. Most important is that the FBP discourages the development of innovative distribution channels, since realised cost savings cannot be passed on to customers. Competition pits independent small bookshops against the big chains, supermarkets and the Internet. This seems indeed to be the case for the UK and the US. With the FBP, unconventional distribution channels (bookclubs, supermarkets, petrol stations, the Internet, etc.) have less of a chance. Against these costs is the benefit that independent small bookshops may be able to recommend interesting books and order books that are not in stock from the publisher or distributor.

Tullock (1980) argues that publishers and booksellers lobby and spend time, energy and other resources to get and maintain the privileges of the FBP. Monopoly profits y+a-*F* are then not handed back to consumers. Publishers and booksellers go on with lobbying and rent seeking until a large part of these profits is dissipated, so monopoly profits y+a-*F* should be

added to the sum of the consumer and producer surplus welfare loss “triangles” of the monopoly agreement. The total welfare loss is then y+a-*F*+z+b. If these profits are dissipated, the gain in the diversity of book titles will evaporate as well. Adam Smith already stressed the costs of rent seeking in the context of privileged positions under mercantilism.

The FBP may lead to a bigger diversity of book titles (if rent seeking does not dissipate all profits) but to worse incentives to develop new distribution channels. It also leads to higher prices and less sales revenue for each title published. However, the experience of the UK after liberalisation has been that, while the number of bookstores has declined and new channels of distribution have opened up, book prices have gone up by more than the retail price index. Liberalisation of taxi fares often raises some taxi fares in order to reap the benefit from the uninformed tourist trade while others charge lower prices and enjoy a higher business volume targeted at the residents’ market – e.g., Salop and Stiglitz (1977) and Sutton (2000). Competition in the book market may fail for different reasons than in the taxicab business, since the public can with the aid of the Internet, quickly inform itself about prices of book titles. A different problem may be that the book market may fail to produce an efficient outcome, because part of the public has difficulty in assessing the quality of particular books at the moment of purchase (and thus before the book is read). This problem of imperfect information leads to a "lemon" problem in which bad-quality books may drive out good-quality books (see Akerlof (1970)). Eventually, the market for high-quality books may thus collapse. Book reviews and book clubs may prevent this from happening.

5.2 Retail price maintenance may boost non-price competition

Advocates of the FBP also argue that, even though price competition is eliminated, non-price competition may intensify. For example, a bigger sale margin stimulates booksellers to give better service to customers (e.g., Holahan (1979), Mathewson and Winter (1998), and Deneckere et al. (1997)). With a bigger profit margin, it pays to spend more effort on service in order to get extra customers. If the extra service (more attractive presentation in bookshops, better information to customers, more promotion, etc.) generates more sales than the fallback in sales due to higher monopoly prices, the FBP may be desirable. In this scenario the market fails by delivering insufficient service, because bookshops have an incentive to operate as free-riders by offering discounts and expecting their customers to get their information and service elsewhere. Bookshops hardly refuse service or charge for information provided to people who in the end may not buy a book. Still, most customers rarely engage in such a strategy, as the costs of roaming around various bookshops seem high in relation to the possible discount one might obtain. Much of this service is already made available through publishers' advertisements or book reviews in newspapers and other media or on the Internet.

In any case, it is questionable whether the demand for books really depends on service. Better service does not seem a good argument for supporting a FBP.

The book trade also argues that a bigger margin provides incentives for better-stocked bookshops. Booksellers may take over some of the inventory risks from publishers, so that more titles will be published. At the margin it is more profitable for retail outlets with relatively high costs to open up. This argument only works if customers want to purchase their books at particular high-cost bookshops. The gain in sales from these outlets may then offset the drop in sales resulting from higher monopoly prices. Although a dense network of bookshops may be desirable from a cultural point of view, this argument for the FBP is difficult to justify on grounds of market failure. Another popular argument is that higher margins encourage more retail outlets to put new book titles with uncertain sales prospects on their shelves. Given that there seems to be no problem for debutantes to get their first book published, this is not a strong argument either. Marvel and McCafferty (1984) suggest that resale price maintenance may sustain a luxury image, but that seems more relevant for the markets for perfumes and jewellery than for books.

In sum, the above discussion suggests that there is not a clinching economic argument for the FBP. Even if there is a greater variety of book titles being published under the FBP, there may be more efficient instruments to achieve this. In any case, lowering of production costs due to technological progress will benefit the diversity of books being published.

5.3 Imperfect competition: Is the cross-subsidy argument valid?

The novel *Endurance* by Ian McEwan is not a perfect substitute for *Il Nome della Rose* by Umberto Eco. They are different books, because the authors have different styles, the themes of the two novels are different, and last but not least the original languages in which the books are written are different. Still, Umberto Eco's books are closer substitutes for the novels of Ian McEwan than, say, a cookbook or a travel book. On the other hand, Martin Amis may be a closer substitute than Umberto Eco for Ian McEwan. One must therefore leave the realms of homogenous goods and adopt a framework of Chamberlinian monopolistic competition in which books are imperfect substitutes. Publishers/booksellers carve out a niche and make monopoly profits, which enable them to recoup fixed costs. It is thus profitable to publish books even though the marginal cost of printing extra books is small. In fact, an important argument of the lobby of booksellers/publishers rests on imperfect competition. They argue that the FBP allows for cross-subsidies from best-sellers towards less popular books and leads to a more diverse supply of book titles and bookshops. In addition, the book lobby suggests that publishing and stocking a large selection of books enhances reputation, yields economies

of scope and satisfies the idiosyncratic taste of individual publishers and booksellers even though these arguments do not seem very strong (also see section 5.2).

The cross-subsidy argument seems at first blush irrelevant. In competitive markets with imperfect information about the success of a product, it is common to invest in many products and reap a success on only a few of them. Even without a fixed horse price agreement, horse owners purchase lots of yearlings, many of which subsequently are sold to the riding school or the butcher if they do not win races. Similarly, in a market without a FBP publishers invest in debutantes, just like horse owners invest in yearlings. There are few barriers to debutantes in the book market even though publishing is a risky business with only a third of published books being profitable. In any case, The cross-subsidy argument is unlikely to hold if best-sellers are highly price-elastic and less popular, more esoteric books are price-inelastic. Monopoly profits on best-sellers would then be small, while less popular, more esoteric books would command substantial monopoly profits. The FBP then has all the welfare and political economy costs of a monopoly. This situation may arise if best-sellers are easily digestible, require little time to read and thus have high price elasticities of demand, while, say, poetry readings demand a lot of time and effort and thus have low price elasticities of demand. Indeed, anything worthwhile from a cultural point of view takes time and effort to appreciate and thus has a low price elasticity of demand and commands monopoly power. The true price of a good book includes the opportunity cost of the time devoted to reading it, which can be very high. Hence, books with great cultural value are more susceptible to monopoly power. In this case, a FBP would obtain most of the monopoly profits on less popular books and the cross-subsidy argument fails.

Non-fiction books (dictionaries, cookbooks, travel guides, textbooks, etc.) are likely to be close substitutes within each genre and will thus have high price elasticities. Fiction books (children books, mysteries, etc.) often have close substitutes (perhaps with the exception of *Harry Potter*), especially for the pocketbook versions of old titles, and thus high price elasticities. We do not expect large monopoly profits on such titles, and there is little room for cross subsidies to books with a specialist or unique character. Such books have low price elasticities and generate high monopoly profits. If this is the situation, the cross-subsidy argument is likely to be wrong. The problem with a FBP is that there is no guarantee that publishers/booksellers will use the monopoly profits to make sure that more esoteric titles will be published and stocked in the stores. Monopoly profits may well be directed towards unproductive managerial slack.

5. Public policies in practice

Apart from influencing competition in the market for books, governments actively interfere in the book market through prizes, grants, subsidies to bookshops, public libraries and special

VAT-regimes for books. This way the government wishes to recognise that books are not products with just economic value, but also have cultural value.

6.1 Retail price maintenance

In countries like Australia, Canada and the US a fixed book price is not an issue. From an economic point of view books should be subject to European competition law. Nevertheless, some countries allow for fixed book price policies for cultural reasons. Table 9 presents an overview. There are ten countries with a fixed book price and ten countries without a fixed book price. The details of the book price regimes differ across countries (see EC (2004)). Belgium for example has a self-regulation agreement restricting price competition for six months, after which pricing is unrestricted. In some countries the fixed book price policy may change, because they are tested by the competition authorities. These countries include Austria were the fixed book price is in force until 2005, Denmark where some changes to fixed pricing under consideration by the Competition Authority, Greece where a recent court case has allowed newspapers to sell books at less than the fixed retail price, Italy where the law concerning the fixed book price was extended until 31 December 2004, and the Netherlands where the current law expires 1 January 2005 and a new law is currently presented to the Parliament. In the UK the fixed book price was abolished in the mid 1990s. Because of this smaller independent bookshops claim to have found it harder to remain in business despite offering high-quality service. Prices also went up in the UK, but this may have been due to a shift from pocket to hardback books.

The UK, Sweden, Finland, Belgium and Ireland do not have a FBP, but the latter two countries are thinking of introducing one. France, Italy, Spain, Portugal, Greece, Austria, Luxembourg, Denmark and most recently Germany have established fixed book price agreements in their laws. Most of these are based on the French law (the "*loi Lang*"). The Netherlands exempts collusive agreements within the book trade from the competition bill, but it has not anchored the FBP in the law as such. Some countries (e.g., Italy, Denmark, Spain and soon the Netherlands) exclude educational books from the FBP. Hence, the FBP is with the exception of the UK, Sweden and Finland popular throughout Europe - see, e.g., EIM (2001). Some European countries with a FBP practise *collective* retail price maintenance, so that all associated publishers impose fixed retail prices on all associated retail outlets. Other countries (e.g., Germany) have *individual* retail price maintenance with prices of some book titles free, which may have the advantage of some residual competition and less distortions.

The European Commission is not in favour of the FBP, which it sees as an infringement of the ideal of a common market. However, the European Commission (2002) recently gave up its competition proceedings against the German book price fixing system

(the '*Sammelrevers*') because German publishers and booksellers gave sufficient evidence that their FBP did not hinder trade appreciably between member states and thus did not violate the European Union's competition rules. Effectively, this guaranteed the freedom of direct cross-border selling of German books to final consumers in Germany, particularly, via the Internet. German publishers and booksellers thus will not hinder or put an embargo on direct cross-border Internet sales or on advertising of cheaper German books by foreign retailers. They have agreed not to violate the '*Sammelrevers*', so that they will not co-operate with foreign retailers in order to circumvent the FBP. This prompted former European Commissioner Mario Monti to say: *"On the basis of EU competition law the Commission has no problem with national book price fixing systems which do not appreciably affect trade between member states. By clearing the German price fixing system the Commission, in a perspective of subsidiarity, also takes account of the national interest in maintaining these systems which are aimed at preserving cultural and linguistic diversity in Europe."* Thus, there appear to be no European obstacles to national book price fixing agreements, provided that they do not hamper cross-border trade.

Section 5 taught us that a FBP may induce higher prices and less sales of any book title that is published. It may also hinder innovation and distribution, but more titles will be published and there will be more bookshops with a diverse assortment of titles. In any case, many FBP's are of limited duration and characterised by sensible exceptions. The welfare costs are probably not very large, but may be reduced a little by reducing the term and coverage of the agreement. It may also be helpful to abolish certification and exclusive trade arrangements, scrap the fixed discount for recognised booksellers, and move to individual rather than vertical price agreements (see also Appelman and van den Broek (2002)). Since educational and scientific books typically have relatively low price elasticities and are more susceptible to monopoly abuse, it helps to exclude them from the FBP. As a dogma, the FBP diverts attention and energy away from making the book trade more innovative and customer-oriented. It may be more worthwhile to stimulate reading of a wide variety of books by investing in public libraries and education, subsidising authors to write books of high cultural value, translating the best books into other languages and promoting them abroad.

6.2 Stimulating demand: lower value-added tax

The general consumption of books can be boosted by lowering the specific VAT-rate on books. This is a general instrument, so that it is difficult to enforce cultural values and judgements. The lower VAT on books applies to cookbooks as well as more esoteric poetry collections. This instrument is therefore mainly used to stimulate the purchasing and hopefully reading of books. Administrative costs are low, since no apparatus of literary experts has to be called upon. Table 9 also presents an overview of VAT policies on books.

All countries of Europe, except Denmark, use this instrument. The UK and Ireland even abolished the VAT on books altogether. The European Commission misguidedly attempts to harmonise VAT-rates on books making it difficult for other member states to abolish VAT on books. The European Commission fails to take account of the subsidiarity principle. Since book trade especially between the non-English speaking countries hardly distorts intra-European book trade, there is no danger of tax competition and no harm in countries pursuing their VAT-policies on books independently of each other (see section 7).

6.3 Stimulating supply: prizes and grants for writers and subsidies for bookshops

Governments and commercial sponsors do many things to encourage writers of the better book. There are many prestigious and less prestigious prizes for the best novelist, the best detective writer, the best poet, the best translator, etcetera. All of these are meant to encourage a better quality of supply of books. More important, they might guide the uninitiated reader to the most worthwhile books available on the market. Book clubs, best-seller lists and book programmes on television also help in this respect. They also probably boost total book sales. Literary funds help struggling authors to make a living if their project is deemed to be of literary interest. Since only best-seller authors can make a living on royalties and related incomes, others may need some help especially if their output has cultural value but is perhaps a little esoteric. These policies are designed to stimulate the quality rather than the quantity of supply. Sometimes subsidies for publishers of high-quality books may help as well (witness Sweden).

Many politicians attach cultural importance to a dense network of retail outlets for books. Section 2.3 already suggested that the density of the network of retail outlets seems to be falling in some countries, perhaps strongest in those countries without a FBP, and furthermore concentration is increasing as well. From a cultural point of view this is bad news. People have to travel longer for a bookshop and there is less variety of bookshops. If the main objective of cultural policies is to increase the density of high-quality retail outlets, subsidies for high-quality bookshops may be a more effective policy instrument than the FBP. If they act as cultural centres in less-populated areas, they may deserve public support.

Subsidising bookstores in order to maintain a dense network of well-stocked bookshops would probably prove an administrative nightmare. That is probably why there is not much experience with subsidies for bookshops. Subsidising publishers to publish books of literary and cultural value would also seem to hinder the market mechanism and lead to adverse effects. In Sweden the government subsidises in this manner roughly a third of all fiction and a fifth of books for the young people. However, Swedish retailers do not stock all book titles as the government rather surprisingly does not require subsidised books to be offered for sale.

6.4 Make reading cheap: public libraries

Table 10 overviews the use of public libraries. The information is normalised by head of the population. Again, the cross-country differences are substantial. With 0.4 service points per 10,000 inhabitants the density of public libraries is very low in France, Italy, and Portugal. However, it is quite high with more than 3 service points per 10,000 inhabitants in Switzerland and the UK. In the Nordic countries there are also relatively many service points per inhabitant. Figure 3(a) shows that in cross-country terms there is a clear positive correlation between public library service points and book titles. Of course, this correlation does not necessarily imply that there is a causal relationship. More likely, the cross-country correlation has to do with preferences for books. In some countries preferences are low and therefore lead to few public library service points and few titles, whereas in other countries there are many public library service points and published book titles. The highest number of library employees (per 10,000 inhabitants) is found in Austria (116), and in the Nordic countries and Switzerland (70-90). Less than 20 library employees per 10,000 inhabitants are present in Greece, Japan, Portugal, and Spain.

With respect to the use of public libraries two indicators are available. The first is the number of registered users, the other is the number of library visits. In terms of the registered users the extremes are Austria, where 11 per cent of the population is a registered public library users and the UK where 59 per cent of the population is a registered public library user. With respect to the number of visits per head of the population, there is not much variation except for Greece. In Greece the number of visits is 0.2. In the other countries with available information the average number of visits per inhabitant is 4 to 5.

Figure 3(b) shows that there is also a positive cross-country correlation between public library loans and book titles. There is only one exception, Switzerland, where despite the low number of public library loans many book titles are published.

6.5 Bringing the pieces of information together

From the stylised facts presented some conclusions may be drawn. People read fewer books and there are cross-country differences in the reading of books. Some differences are already present at a young age. Females read more than males and higher educated people read substantially more than less educated individuals. Book title production is increasing over time. Per-capita title production varies a lot between countries, which suggests that some countries have many more best-sellers than others. Imports and exports of books are increasing over time, which suggests that there is specialisation in language areas. Germany, Italy, Spain, and the UK are big exporters, Austria and Switzerland are big importers of books. There are big cross-country differences in VAT-policy concerning books and some countries have a regime of fixed book prices while other countries allow for book price

competition. Furthermore, there are huge differences in the use of public libraries. Especially in Scandinavian countries, the Netherlands and the UK the use of public libraries is large. In southern European countries the use of public libraries is quite low.

To investigate the potential determinants of book title production (see Table 4) we investigate to what extent per-capita GDP (taken from the Groningen Growth and Development Dataset), the average schooling level (taken from Barro and Lee (2000)) and fixed book price policies (see Table 9) are relevant. We use information from 1975, 1980, 1985, 1990, 1995 and 1999. We allow for country-specific effects representing, for example, cultural and taste differences that cannot be explained by these determinants. We also allow for effects of calendar time to allow for changes in production costs on book title production in each country. We thus estimated the following equation:

$$\log(TITLES_{it}) = \alpha_i + \alpha_t + \beta_1 \log(GDPit) + \beta_2 \log(SCHOOLING_{it}) + \beta_3 FBP_{it} + \varepsilon_{it}$$

where TITLES is number of titles per 100,000 inhabitants, GDP is real GDP per capita, SCHOOLING refers to average years of schooling of the population of 25 years and older, and FBP is a dummy that equals 1 if a country has a fixed book price regime and zero otherwise. Furthermore, i is an index for country, and t for calendar year. The α_i's represent country-specific effects, the α_t´s the effect of calendar time, and ε_{it} the i.i.d. error terms.

The first column of Table 11 (a) shows the parameter estimates if the fixed effects are excluded. There is a significant positive effect of GDP per capita with an elasticity of 0.86, but neither the schooling level or the fixed book price regime have significant effects. If we introduce country-specific (random) effects, the parameter estimates hardly change. If we also introduce calendar-time effects, GDP per capita is no longer significant. Obviously, there is a high correlation between calendar time and country-specific developments in GDP per capita. In other words, there is a high correlation in economic growth between the countries in our sample. Because of this GDP per capita may have a positive effect on book title production, but we cannot distinguish this effect from other correlated calendar-time effects representing production costs or taste changes. Table 11(a) also shows that the number of book titles produced is unrelated to the average level of education in a particular country. It shows that whether or not a country has a fixed book price, does not affect the number of titles produced.

We also study the potential determinants of the use of public libraries by estimating the following equation for the same countries and years:

$$\log(LOANS_{it}) = \gamma_i + \gamma_t + \beta_4 \log(SCHOOLING_{it}) + \beta_5 \log(SP_{it}) + \nu_{it}$$

where LOANS is the number of public library loans per inhabitant, and SP is the number of service points per 100,000 inhabitants and the ν_{it} are i.i.d. error terms. The parameter estimates are presented in Table 11(b). Average schooling in a country has a positive effect on the number of library loans. The effect becomes smaller if country-specific (random) effects are introduced. This suggests that there could be correlation between schooling and library loans that is caused by a joint preference for both, that is some countries have both a high level for schooling and a preference for library loans. The effect becomes even smaller if also calendar-year fixed effects are introduced, which suggest that over time there is a non-causal correlation between schooling and library loans. Nevertheless, even after country-specific fixed effects and calendar-year fixed effects are introduced, schooling has a positive effect on library loans. This is not surprising, because (as discussed above) there is a positive correlation between education and reading of books. Table 11(b) also shows that there is a positive effect of library service points on library loans.

In addition to an analysis of long-term trends in the number of book titles and the number of library loans, we also present an analysis for the 1990s of the potential effect of the fixed book price policy on the number of titles. We use annual information from seven countries over the period 1990-99. To have a consistent dataset over these years, the information about the book titles production is now from the International Publishers Association. The development of the number of book titles per 100,000 inhabitants over time is shown in Figure 4. There are clear upward trends in the production of book titles and there are big differences between countries. The per-capita production of book titles is highest in Denmark. For the UK the increase in the production of book titles is larger than in other countries. The estimated equation is similar to before, except that the schooling variable is replaced by country-specific time trends:

$$\log(\text{TITLES}_{it}) = \alpha_i + \alpha_t + \delta_i\, t + \beta_1 \log(\text{GDP}_{it}) + \beta_3\, \text{FBP}_{it} + \varepsilon_{it}$$

The country-specific time trends account for trend-like country-specific changes in schooling but also in other types of trend-like country-specific changes like changes in tastes. The parameter estimates are shown in Table 11(c). Now we find that GDP per capita has a positive effect on the number of book titles produced. Introducing country-specific or calendar-time effects and country-specific time trends reduces this effect, but still leaves a positive effect of GDP per capita on book titles produced (at a 10% significance level). The difference in results between Tables 11(a) and (c) may arise from developments of GDP per capita over time being more correlated across countries over a long period than over a short period. The first column of Table 11(c) shows that countries with a fixed book price produce

25 percent more book titles per capita than countries without this regime. However, this effect is estimated on cross-country differences. If we introduce country-specific fixed effects this effect becomes significantly negative. Note that now the effect of the fixed book price is fully determined by the abolishment of the fixed book price in the UK in 1995.

7. Horses for courses: different policies for different countries

Despite the variety of cultural policy instruments (see section 6), it is not clear why the market cannot fend for itself (see sections 3-5). Still, when considering policy instruments for reaching cultural objectives, there are at least two trade-offs (see section 3). The first is between efficiency and density/distance. Increasing the scale of booksellers can enhance efficiency, but leads to longer travelling time for consumers. The second trade-off is between efficiency and cultural goals. Cultural goals may conflict with efficiency. For example, diversity of books in a bookstore may conflict with productive efficiency. The optimal choice of policy instruments is not the same for all countries (see Appelman and Canoy (2002)). It depends on the culture-political preferences and on country-specific characteristics that determine the market outcome. Certain characteristics (e.g., a large 'language size') generate market outcomes where cultural objectives are more easily met, i.e., there is hardly a trade-off between efficiency and cultural goals. In such countries the use of cultural policy instruments could be counterproductive. It is mainly for that reason that the United States, Australia and Canada do not have policies aimed at the book market, while they do have policies aimed at other cultural markets. We see four groups of characteristics relevant for market outcomes:

- Population concentration

In a densely populated country it is easier to realise an efficient scale of booksellers in many parts of the country. In a rural area in, say Sweden it hard to see a bookshop emerging with a variety of cultural valuable books. So density of the population positively contributes to the cultural goal of having an adequate distribution network.

- Computer and Internet use

The lack of density can be (partially) offset with computer use. Maybe inhabitants of the rural areas in Sweden do not bother. They use Amazon.com or some Swedish equivalent. This implies that computer and Internet access reduce the problems that are caused by low density of the population.

- 'Language size'

With 'language size' we mean the number of people speaking one language. The language size determines the efficient scale of bookstores and publishing. It is easier to take risks if the occasional reward is a best-seller of several million books: possible in English, hardly likely in Greek. This has consequences for the ease of publishing. The greater the 'language size',

the less risky it is to publish books. This is particularly relevant for books with high cultural value, since it is much harder for the translation to do justice to the intentions of the author.

- Culture and sociology (e.g., religion, traditions, book reading)

Leisure activities (book reading versus other activities), the general attitude of people towards buying books (instead of borrowing), and the cultural traditions (e.g., number of people who write books) all contribute to how close market outcomes approach cultural objectives.

Table 12 groups European countries in three broad categories, based on the above-mentioned characteristics. We emphasise that the categories merely serve as an illustration of the point that characteristics determine optimal policies, but are not meant to suggest that countries *should* adopt the policies. The first category includes Scandinavian countries and the Netherlands. According to Table 12, these countries are similar in many characteristics such as leisure activities and sociology, Internet use and 'language size' (although the Netherlands is an outlier on some aspects). The countries in this group publish a relatively large number of book titles, spend lots of time reading them. They also top the list in computer and Internet use. The 'language size' is roughly similar, as is the population concentration, with a notable exception for the Netherlands (and, to a lesser extent, Denmark).

The second group is Southern Europe. The countries in this group publish a relatively small number of book titles (with the exception of Spain), do not spend much time reading them. They are also at the bottom of the list in computer and Internet use. 'Language size' is roughly similar (with the exception of Spain), and to a lesser extent the population concentration.

The third group are the three large European countries, which are similar in terms of population concentration and 'language size' (France and the UK being outliers). This translates in similarities in book reading and publishing behaviour, apart from the UK where more books are published and read. In the Internet and computer ranking this group is intermediate.

The fourth group uses the same language as some other country, i.e., Ireland, Belgium, Switzerland and Austria. These countries share the feature that trade of books is more relevant for them than for other countries. They are typically smaller countries than the country of the language of origin. In most cases this implies that it makes sense to duplicate the policy chosen by the country of origin. Otherwise, if Germany has a fixed book price while Austria has free book prices, there will be arbitrage opportunities. Still, in practice French books are charged differently in Belgium and France and the same is true for German books in Austria, and this cannot be explained by transportation costs.

The results are qualitatively summarised in Table 13. The fact that these countries have similar characteristics does not imply a uniform cultural policy. First, being the outlier in one dimension can make the difference between two instruments. Second, we have to confront these characteristics with political goals. What can we say about the appropriate policy instruments for the various groups? For the countries in the first group, market outcomes approach cultural goals. This is more so in the Netherlands (and Denmark) than in Norway, Finland and Sweden, because of the higher concentration of population. Trends, such as increasing Internet use, will make market outcomes approach cultural goals even further. The only downside is the 'language size'. In particular in Scandinavia the 'language size' plus density implies that rural areas are unlikely to see flourishing bookshops with a broad cultural stock in a free market. The problem is not necessarily limited to obscure rural areas in northern parts of Finland. Internet can solve part of the problem, but the extent to which politicians accept Internet as a perfect substitute or even an acceptable substitute for bookshops is unclear, even in computer-loving Scandinavia. This means that a light-weight policy instrument seems reasonable, e.g., a subsidy for booksellers or publishers.

Less clear is the situation in the Netherlands and Denmark. Because the situation is more favourable than in Norway, Finland and Sweden, a free market makes more sense in these countries. Still, there is some pressure to ground the fixed book price agreement in law. One reason may be that it is hard to predict what the consequences of the free market are. It is unclear whether society wants to accept this type of uncertainty. It may help to maintain (a stripped version of) the FBP for a number of years, collect data and then evaluate the results. In Denmark a slow but gradual move towards a free market is the most likely course.

In the countries in the second group the free market is prone with danger. Internet use is lower, density is low and there is less book reading, so the free market is unlikely to produce satisfactory cultural goals. Coupled with political preferences, the FBP may have some virtue, possibly with the exception of Spain where the free market will produce better results (due to the huge 'language size'). Perhaps, Spain therefore fits better in group three.

Countries in the third group are interesting in the sense that the impact of political preferences and traditions is so large. While the UK and France are similar in many ways, their political goals differ strongly, with France leaning heavily on the state as the protector of culture and the UK putting much more trust in the market and benefiting from a much larger reach of the language. The UK is helped in this by its characteristics. It is therefore logical that the UK does not apply special instruments, beyond the common subsidies for libraries. In contrast, the cultural state emphasis in France is so dominant that it dwarfs all characteristics and the FBP seems the logical choice there. Germany has a longstanding philosophy of state protection, but perhaps less strong than in France. Still, Germany has in recent years firmly anchored the FBP in federal law.

Different courses need different horses. Our taxonomy is very tentative and suggests that cultural differences between countries matter for the policy interventions in the book market. Harmonisation is a bad idea, because there is not much relevant intra-European book trade and book policies do not appear to distort the single European market much. Furthermore, characteristics and political preferences between countries of Europe differ significantly.

8. Concluding remarks

With little government intervention the book market on its own still ensures reasonable cultural performance, especially in large language areas. Yet there are differences between countries in reading, retail outlets, wholesale and production. Due to lack of data and research it is not easy to explain these differences. They may be due to differences in preferences, logistics, population density or public policies or due to being stuck in the wrong equilibrium. One important trend is that people seem to read less books over the years. Perhaps they are reading on the Internet or spending time on other cultural leisure activities. Important areas for further research are to investigate the relationship between production of titles, books sold and prices, use survey data to study the effects of personal characteristics of readers on book market outcomes, analyse empirically the differences between book and other cultural markets, and to apply the theory of industrial organisation to understand pricing and stocking behaviour of publishers and retailers.

The book market is characterised by relatively few market failures and those can be relatively easy corrected for with market instruments. The book market can fend well for itself, in contrast to the markets for opera, movies or theatre plays which are characterised by high production costs, high risk and complex interactions between a large number of different professionals. Even though there are obvious returns to scale, production costs are low. Furthermore, thresholds for debutants, publishers and retailers are small, contracts are relatively simple and fairly uniform. The market is quite capable of inventing solutions to specific problems of the book trade and public policies are not always called for, except perhaps to stimulate reading. Contracts give authors a percentage of sales revenue, which may induce them to write books with a ready audience. Publishers thus have an incentive to make profits and thus to market the book. There may be some conflict between authors and publishers if authors get most of their income from related activities. In that case, authors may prefer to give publishers a better incentive to maximise sales rather than profits. Literary agents are crucial in markets with imperfect information as intermediaries between authors and publishers and other interested parties. Publishers are important as gate keepers, since this ensures that not too much material gets published for which there will be no demand. Wholesalers in the book market cooperate in a joint distribution network and in joint publicity. The market also finds it profitable to cooperate in order to have best-seller lists and

reviews to get a better functioning book market. Finally, given the uncertainties involved in stocking many books for small retailers, retailers and publishers reach agreements about taking unsuccessful stocks back.

Nevertheless, most authors and members of the publishing and booksellers trade stress that books are different from non-cultural commodities. There is an extremely strong lobby for government intervention, but unfortunately there is little research on the effects of policies on cultural outcomes. Apart from prizes and grants for authors, translators, publishers, bookshops, special VAT-regimes for books and stimulating reading through public libraries, the *piece de resistance* of the cultural sector is undoubtedly the fixed book price agreement (FBP). The standard case against the FBP is that book prices are higher and sales lower than under competitive equilibrium. This hurts the interests of book buyers and particularly hits those with lower incomes. One could possibly argue on cultural grounds in favour of the FBP, since this may induce more and better-stocked bookshops and to publication of more marginal book titles. Although books are published whose prices are higher and sales lower, more titles will be published and more bookshops will carry a diverse assortment of popular and less popular books.

The cross-subsidy argument of the lobby in favour of the FBP is not convincing, however. First, the market even without the FBP will cross-subsidise debutantes and other risky projects in the hope of possibly getting a best seller. Second, even if this cultural policy "works", there is no accounting for what is done with the cross subsidies and there are no democratic checks and balances. Third, there is no guarantee that profits on best-sellers will be used to cross-subsidise less popular, more esoteric books. In fact, publishers and booksellers have an incentive not to do this. Fourth, if less popular, more esoteric books are less price elastic (if only because they take more time to read) than popular books, monopoly profits on less popular books will be higher and the cross-subsidy argument does not work. Fifth, even if cross-subsidy does occur, one should evaluate whether the cultural gains from cross subsidies outweigh the distortionary costs of the FBP. Other arguments put forward to defend the FBP stress improved service, better distribution and retail networks, and other forms of increased non-price competition do not stand up to scrutiny either. The book market produces a large variety of titles and debutantes do not experience severe problems. Although bookshops have a powerful bargaining position, one should worry about the declining number of well-stocked bookshops outside of the big cities. The FBP hinders Internet suppliers and supermarkets trying to sell books.

A comparison of policies towards the book market in different European countries teaches us that harmonisation is a bad idea. There is not much inter-European book trade, so that book policies hardly distort the single European market. Also, characteristics of book markets (density of population, Internet use, ‘language size’), cultural and social features and

political preferences of the different countries of Europe differ substantially. It is therefore best to allow member states of Europe to design their own book policies. The UK will have more a focus at subsidising libraries, while France and Germany may benefit from carefully designed fixed book price agreements. Also, a fixed book price makes also more sense for a country as Greece than the UK as it has a much smaller 'language size' and fewer people have access to Internet. Although there may be a problem of a 'race to the bottom' if VAT-rates are not harmonised, tax competition seems pretty irrelevant for the book market. Countries in Europe should be free to lower or abolish VAT on books in order to promote reading if they so wish.

Many granted privileges and other monopoly positions in the book market will eventually be undermined by technical changes. Digital cameras and recording and editing equipment have made low budget radio and television as well as narrow casting possible, thus undermining the monopoly position of public and other broadcasters. Similarly, the Internet has stimulated the advent of virtual book suppliers such as Amazon.com, printing and publishing on demand and E-books. This makes publishing possible for almost anyone, thereby undermining the monopoly position of traditional booksellers and publishers. Virtual dictionaries, encyclopaedia and other handbooks have already overtaken, to a large extent, their physical counterparts. Although a dense network of well-stocked bookshops remains important, more retailing will in future take place through the Internet.

Indeed, there are trends that endanger books, the most important one being that people read less and less. Some worry that the next generation will stop reading books altogether, but this may be too pessimistic. First, the population is ageing so that more leisure time becomes available and the opportunity costs of reading reduce. Second, people may read less due to improved possibilities of spending leisure time and may not signal the beginning of the end of books. Third, the number of published books is increasing (see section 2). This is, in part, due to sharp reductions in production and printing costs. Fourth, there is no reason to believe that a cultural carrier as old as the book suddenly disappears. Historically this only happened with goods that became technologically obsolete (parchment, LP's). Modern technology more than anything else complements books rather than substitutes for it (see Cowen, 1998). Fiction Pulitzer price winner E. Annie Proulx who says that the information highway is *"for bulletin boards on esoteric subjects, reference works, lists and news -- timely, utilitarian information, efficiently pulled through the wires. Nobody is going to sit down and read a novel on a twitchy little screen. Ever."* (New York Times 5/26/94, A13). However, as the website www.philobiblon.com/isitabook/bibfuture suggests, there are new technological improvements that really look like books. In some (near?) future, you do not have to sit in front of your computer screen, and do not have to print to read electronic books. It is much more likely that several variants of e-books will co-exist with the traditional variety. Fifth,

when seen in a longer historical perspective, and partly due to improved welfare and education, books are doing great. Back in 1947 85,000 books were in print in the United States, against 1,3 million in 1996. Each new development in the craft has led to woeful outburst of cultural pessimism allegedly indicating the end of the book. Most of the developments only improved the book business (Cowen, 1998). Also, prices fell considerably and steadily. In sum, the book market may look very different in the future, but there is no reason for being overly pessimistic.

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Table 1 Economics of books - international comparison [2]

	Reading	Titles		Copies	Revenues		Value	Public libraries	
	Ever	Last Year	Arts & cult.	Total	Sold		added	Books	Loans
Australia	78	-	-	37	6.3	35	-	-	-
Austria	-	43	27	102	-	80	0.06	1.2	2.0
Belgium	70	23	49	139	-	-	-	3.0	6.7
Canada	81	-	18	74	-	-	-	2.4	-
Denmark	76	55	80	275	5.3	90	0.14	5.5	13.7
Finland	89	-	56	225	5.4	115	0.08	7.2	19.2
France	-	40	34	66	6.9	45	0.08	1.5	1.5
Germany	83	40	23	100	-	75	0.10	1.4	4.0
Greece	-	36	18	39	-	20	-	0.9	0.2
Ireland	80	40	-	221	-	60	-	2.9	3.3
Italy	70	56	19	56	4.8	40	0.12	0.7	4.5
Japan	-	-	17	52	6.1	60	-	-	3.9
Netherlands	81	53	37	110	-	40	0.17	2.6	10.0
Norway	76	-	55	112	-	-	-	4.6	5.0
Portugal	49	15	37	82	2.6	60	0.10	0.9	0.3
Spain	-	39	58	148	4.7	40	0.14	1.0	0.6
Sweden	92	72	43	141	3.6	50	0.09	5.2	8.0
Switzerland	88	-	59	253	-	-	-	3.9	0.8
UK	82	63	55	188	4.7	50	0.18	2.1	7.8
USA	84	-	6	24	-	60	-	-	-

Explanation

Reading: Percentage 'ever' reading books at home in population 16-65 years, 1994-98; Belgium=Flanders, Norway=Bokmal, Source: International Adult Literacy and Life Skills Survey. Last year = for reasons other than work or study, percentage of population of 15 years and over, 2002, Source: Eurostat.

Titles: Annual book title production per 100,000 inhabitants, 1996-1999 (most recent year available), Belgium = 1991, Source: International Publisher's Association (Ireland), UNESCO Statistical Yearbooks (all other countries).

Copies sold: Number of book copies sold per inhabitant, 2000-2002 (most recent year available). Sources: UNESCO, Statistical Yearbooks (Italy (1996), Portugal (1994), Spain (1994)), Stichting Speurwerk betreffende het boek (Netherlands, 2000), Book Market Ltd. (UK, 2001), International Publishers' Association (all other countries).

Revenues: Publishers' revenues from book sales, Euro per inhabitant (US dollars for Australia, Denmark, Japan, Sweden, UK, and USA), rounded numbers, 2000-2002 (most recent year available). Sources: International Publishers' Association (Australia, Italy, Japan), Association of American Publishers (US), European Commission (2004; all other countries).

Value added: Percentage of GDP contributed by the book publishing industry; Source: European Commission (2004). Spending on books in 1999 (percentage of GDP) was 0.30% in France, 0.42% in Germany, 0.36% in the UK, and 0.35% in the US (source: Publishers Association)

Public libraries: Number of book volumes and number of loans to users, both per inhabitant, 1997-1999 (most recent year available); Source: UNESCO, Statistical Yearbooks.

[2] Mnemonics for the countries are AS=Australia, AT=Austria, BE=Belgium, CA=Canada, DK=Denmark, FI=Finland, FR=France, GE=Germany, GR=Greece, IR=Ireland, IT=Italy, JA=Japan, NL=Netherlands, NO=Norway, PO=Portugal, SP=Spain, SW=Sweden and CH=Switzerland.

Table 2 Frequency of reading books – adults and 15-year olds

	Adults aged 16-65 Daily reading		15-year olds Reads at least
	Males	Females	1 hour per day
Australia	24	41	16
Austria	-	-	12
Belgium	12	15	12
Canada	25	44	13
Denmark	20	36	14
Finland	16	30	22
France	-	-	14
Germany	20	29	13
Greece	-	-	29
Ireland	26	39	15
Italy	16	25	17
Japan	-	-	12
Netherlands	18	34	9
Norway	15	30	10
Portugal	5	9	16
Spain	-	-	11
Sweden	24	39	12
Switzerland	24	39	11
UK	25	37	12
US	25	39	12

Percentages of the population. Sources: Adults – International Adult Literacy and Life Skills Survey, 1994-1998, 15-year olds – PISA, 2000.

Table 3 Reading books – males and females

(a) The Netherlands, 1975-2000

Males	1975	1980	1985	1990	1995	2000
Hours per week per capita	1.4	1.5	1.1	1.1	0.9	0.7
Reading books (%)	43	43	36	33	30	22
Hours per week per reader	3.3	3.5	3.1	3.3	3.0	3.2
Females						
Hours per week per capita	1.9	1.7	1.6	1.9	1.5	1.2
Reading books (%)	56	53	52	54	46	40
Hours per week per reader	3.4	3.2	3.1	3.5	3.3	3.0

(b) Finland, Germany, Norway, Sweden and UK, 1998-2002[a)]

Males	Finland	Germany	Norway	Sweden	UK
Hours per week per capita	1.1	0.7	0.8	1.1	0.6
Reading books (%)	13	9	12	13	8
Hours per week per reader	8.1	7.8	6.8	8.1	7.3
Females					
Hours per week per capita	1.6	0.9	1.3	1.5	0.8
Reading books (%)	20	13	20	23	13
Hours per week per reader	8.2	7.2	6.4	6.6	6.3

[a)] Reading connected with work and for an exam and reading as a joint activity, for instance with travelling, is not included. To some extent other reading (not reported here) may include reading books too, which may lead to underestimation of the time used for reading books

Source: Sociaal en Cultureel Planbureau for the Netherlands and also Time Use Surveys of EUROSTAT (2004).

Table 4 Annual book title production, 1975-1999 (per 100,000 inhabitants)

	1975	1980	1985	1990	1995	1999
Australia	40	66	67	39	38	37
Austria	74	94	112	81	102	100
Belgium	60	91	84	122	97	96
Canada	29	78	-	51	61	74
Denmark	140	181	187	216	238	275
Finland	97	136	182	204	264	225
France	54	60	69	74	60	66
Germany	-	-	-	86	91	98
Greece	29	42	47	32	40	39
Ireland	15	-	23	-	182	221
Italy	17	21	27	44	60	56
Japan	31	36	38	33	42	52
Netherlands	88	103	87	92	117	110
Norway	122	137	86	88	167	112
Portugal	63	62	104	62	78	82
Spain	66	76	90	92	122	148
Sweden	110	91	114	140	143	141
Switzerland	155	162	180	202	220	253
UK	63	85	93	151	174	188
US	39	33	21	19	23	24

Source: UNESCO, Statistical Yearbooks

Note: The calendar year for which information is given is sometimes different from the year indicated, that is for 1975 it is 1973 for Ireland, for 1980 Japan gives 1981, for 1985 Ireland gives 1984, for 1990 the UK gives 1992, for 1995 Ireland gives 1994, and for 1999 Austria gives 1996 while Greece, Netherlands, Portugal, and US give 1997, Australia, Sweden and UK give 1998 and Ireland gives 2000.
The definition of 'book title' differs between countries and sometimes changes over time. Australia from 1990 and Belgium from 1980 give only books actually received by the National Library. Austria from 1995 excludes school textbooks. Canada excludes government publications. Japan from 1980 and Netherlands from 1980 exclude pamphlets. Norway from 1985 no government publications or school text books. Portugal from 1995 includes reprints. USA no pamphlets and no school text books, and from 1985 only no pamphlets.
Data for Belgium and Ireland (1995, 1999) are from the International Publishers' Association, so they may not be comparable to the information in previous years.

Table 5 Book titles on arts and literature, 1975 and 1999 (percentage of total)

	1975	1999
Austria	22	26
Belgium	35	36
Canada	-	24
Denmark	30	29
Finland	38	22
France	32	42
Germany	-	26
Greece	51	46
Italy	36	35
Japan	-	39
Netherlands	33	43
Norway	32	49
Portugal	29	45
Spain	32	39
Sweden	36	30
Switzerland	23	23
UK	34	29
US	-	26

Note: See Table 2.4.

Table 6 Publishers' revenues from book sales – an international comparison

(a) By type of books (%)

	year	Text books	Scientific books	General books	Children's Books	Total	Total (million)
Australia	2000	21	19	50	10	100	$ 623
Denmark	2002	11	9	66	14	100	$ 293
Finland	2000	22	8	56	14	100	E 253
France	2002	15	27	49	9	100*	$ 2813
Germany	2001	2	39	55	4	100	E 4870
Ireland	2000	62	4	31	3	100	$ 50
Italy	2000	23	6	68	3	100*	E 2442
Spain	2001	21	24	46	9	100	E 2605
Sweden	2001	40	2	48	10	100	$ 278
UK	1999	15	28	48	9	100	$ 4486
US	2001	26	22	41	11	100	$15839

(b) By distribution channel (%)

	year	Trade	Book clubs	Direct	Total
Australia	2000	74	26	0	100
Denmark	2002	83	15	2	100
Finland	2000	59	16	25	100*
France	2002	69	18	13	100*
Italy	2000	71	4	25	100*
Sweden	2001	76	17	7	100*
UK	2001	78	10	12	100*
US	2001	41	9	50	100*

Textbooks = primary and secondary text books
Scientific books = college, higher education, university, reference, dictionnairies, encyclopeadias, professionals, STM excluding journals.
General books = general trade, consumer, fiction, non-fiction, and religious.
Trade = retail and wholesale bookstores, distributors and supermarkets
Information about the distribution is only available for part of the revenues

Source: International Publishers' Association

Table 7 Top-10 European E-Commerce Domains, May 2001

Rank	Domain	Reach (%)	Unique visitors (000)	Average mins per month
1	Amazon.de	5.2	2,567	10.8
2	Bahn.de	3.8	1,887	14
3	Amazon.com	3.4	1,672	6.7
4	Amazon.co.uk	3.2	1,588	11.8
5	Bonzi.com	2.9	1,432	3.3
6	Apple.com	2.6	1,274	6.3
7	Register.com	2.3	1,135	1.5
8	Comdirect.de	2.3	1,131	33.1
9	Lastminute.com	2.2	1,073	7.6
10	Adobe.com	2.1	1,025	3.8

This ranking includes data from Denmark, France, Germany, Norway, Spain, Sweden and the UK

Source: NetValue Consultancy

Table 8 Trade balance for books and pamphlets, 1970-1995 (millions of US dollars)

	1970	1985	1995	Exports 1995	Imports 1995
Austria	0.2	-51.3	-233.8	155.5	349.3
Belgium	3.2	10.1	66.2	412.7	346.5
Denmark	-4.6	16.5	35.9	128.1	92.2
Finland	-2.4	6.7	17.0	62.3	45.3
France	-0.9	13.3	-85.2	627.7	712.9
Germany	-	-	487.3	980.5	493.3
Greece	-0.7	-2.7	-34.1	10.2	44.3
Ireland	-3.2	-14.8	-23.4	64.8	88.2
Italy	23.3	107.9	391.9	554.1	162.2
Netherlands	11.0	2.8	2.9	269.2	266.3
Norway	-3.6	-34.3	-87.2	24.3	111.5
Portugal	-0.9	1.7	-55.4	27.4	82.8
Spain	45.7	203.8	365.3	513.7	148.4
Sweden	-5.6	-31.3	-50.6	93.3	143.9
Switzerland	-2.7	-69.2	-322.5	176.3	498.8
UK	61.3	271.9	670.4	1665.8	995.4

Source: UNESCO Statistical Yearbooks

Table 9 Public policies on books

	VAT rates (2001)		Fixed book price policy
	Books	Standard	
Australia	10	-	No, not since 1972
Austria	10	20	Yes
Belgium	6	21	No
Canada 7	15		No
Denmark	25	25	Yes, adjusted since 2001
Finland	12	22	No, not since 1971
France	5.5	20.6	Yes
Germany	7	15	Yes
Greece	4	16	Yes, since 1997
Ireland	0	21	No, not since 1995
Italy	4	19	Yes
Japan	5	5	Yes
Netherlands	6	17.5	Yes
Norway	0	23	Yes
Portugal	5	17	Yes, since recent
Spain	4	16	Yes, since 1974
Sweden[a)]	25		No, not since 1970
Switzerland	2.4	7.6	No
UK	0	17.5	No, not since 1995
USA[b)]	1-7	1-7	No

[a)] Since 2002, the VAT rate has been reduced to 6%. Before that the VAT rate was 25%.
[b)] Sales tax

Table 10 Public libraries, 1997/1999[a)]

	Year	Service points	Library employees	Book volumes	Registered users	Number of visits	User loans
Austria	1998	2.4	116	1.2	0.11	-	2.0
Belgium	1997	1.5	38	3.0	0.23	-	6.7
Canada	1999	1.2	42	2.4	-	-	6.6
Denmark	1999	1.6	93	5.5	-	-	13.7
Finland	1999	2.2	82	7.2	0.47	-	19.2
France	1997	0.4	22	1.5	-	4.5	1.5
Germany	1998	1.5	29	1.4	0.14	-	4.0
Greece	1997	0.8	17	0.9	-	0.2	0.2
Ireland	1998	0.9	35	2.9	0.23	-	3.3
Italy	1997	0.4	41	0.7	-	4.8	4.5
Japan	1999	0.3	15	1.5	0.28	-	3.9
Netherlands	1997	0.7	53	2.6	-	4.4	10.0
Norway	1997	2.5	42	4.6	-	4.4	5.0
Portugal	1999	0.4	7	0.9	0.41	-	0.3
Spain	1998	1.3	17	1.0	0.18	-	0.6
Sweden	1997	1.9	71	5.2	-	4.7	8.0
Switzerland	1997	3.2	74	3.9	-	4.3	0.8
UK	1999	3.7	45	2.1	0.59	-	7.8

[a)] Most recent year; Service points, library employees are per 10,000 inhabitants; book volumes, registered users, number of visits, loans to users are per inhabitant

Source: UNESCO, Statistical Yearbook 1999

Table 11 Determinants of book titles and library loans

(a) Titles	(1)	(2)	(3)
GDP	0.86 (2.4)*	0.84 (2.9)*	-0.11 (0.3)
Schooling	-0.23 (0.6)	0.09 (0.2)	-0.02 (0.0)
FBP	0.02 (0.2)	-0.18 (0.9)	-0.20 (1.0)
Country effects	no	RE	RE
Year effects	no	no	FE
R^2	0.06	0.35	0.42
χ^2	-	1.6	2.4

(b) Library loans	(1)	(2)	(3)
Schooling	3.55 (5.6)*	1.43 (5.8)*	0.92 (1.9)
Service points	0.41 (2.6)*	0.43 (4.1)*	0.41 (3.7)*
Country effects	no	RE	RE
Year effects	no	no	FE
R^2	0.45	0.39	0.38
χ^2	-	4.0	1.5

Note: Estimation period 1975-99; Titles: 20 countries, 109 observations; Library loans: 18 countries, 90 observations; t-values in parentheses; all variables (except for FBP) are specified as natural logarithms; RE = random effects, FE = fixed effects; R^2 = (within) correlation coefficient; χ^2 = test-statistic comparing random country effects and fixed country effects; a * indicates significance at a 95% level.

(c) Book titles	(1)	(2)	(3)	(4)
GDP	0.87 (3.5)*	1.24 (7.6)*	0.50 (2.1)*	0.93 (1.7)
FBP	0.25 (2.9)*	-0.11 (2.2)*	-0.11 (2.6)*	-0.10 (2.3)*
Country effects	no	RE	RE	RE
Year effects	no	no	FE	no
Country specific trends	no	no	no	yes
R^2	0.16	0.59	0.75	0.73
χ^2	-	2.4	0.8	23.4

Note: Estimation period 1990-99; 7 countries, 70 observations; t-values in parentheses; all variables (except for FBP) are specified as natural logarithms; RE = random effects, FE = fixed effects; R^2 = (within) correlation coefficient; χ^2 = test-statistic comparing random country effects and fixed country effects; a * indicates significance at a 95% level.

Table 12 Characteristics relevant for market outcome

	Population density (inhabitants per km2 in 1999)	Internet users per 1,000 inhabitants (2000)	Estimated number of people in the world speaking a countries' language (x 1 million, 1999)	Indicators of culture and sociology	
				Literary titles per million inhabitants (1995)	Book readers per 1,000 inhabitants (1992)
1.					
Sweden	22	496	9	353	-
Norway	14	490	4	723	-
Finland	17	462	5	382	-
Denmark	126	487	5	534	450
Netherlands	466	346	30	190	500
2.					
Italy	193	218	70	161	210
Greece	82	130	12	152	120
Portugal	108	121	200	197	100
Spain	78	142	450	366	140
3.					
United Kingdom	245	281	1,000	345	540
Germany	235	245	125	166	300
France	108	152	125	181	440
4.					
Belgium	337	296	NL:30 / Fr:125	366	31
Switzerland	183	392	Fr:125 / G:125 / I:70	244	-
Austria	98	326	125	151	-
Ireland	52	289	1,000	-	41

Sources: respectively www.geographic.org, IMD (2001), www.linguasphere.org and Social and Cultural Planning Office, The Hague, Netherlands (2001).

Table 13 Characteristics per country category

Country group	Density	Internet	'Language size'	Culture and sociology
1. Scandinavia and the Netherlands	low (1)	High	small	cultural
2. Southern Europe	low/medium	Low	medium/large	less cultural
3. The big three: UK, France, Germany	medium	medium	large (2)	medium
4. Smaller countries with shared language	medium (3)	high	medium / large	less cultural

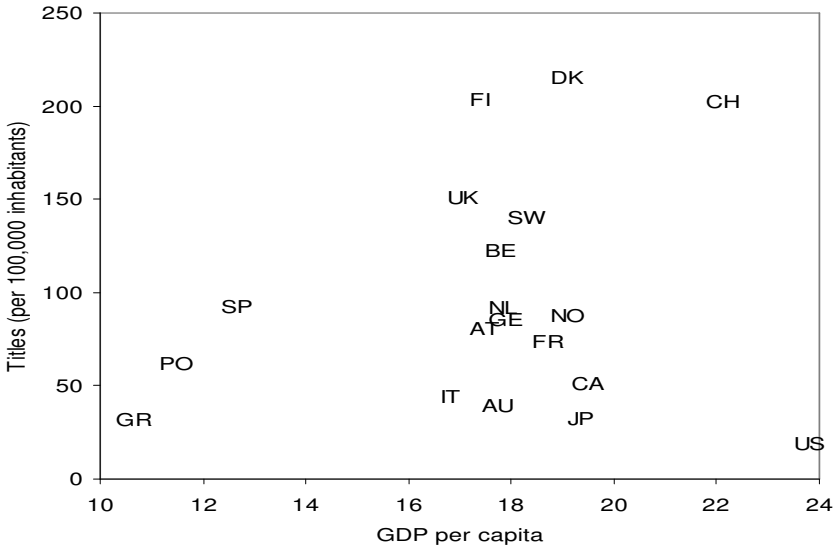
(1) With the exception of the Netherlands and (to a lesser extent) Denmark.

(2) With UK having a much larger size than the other two.

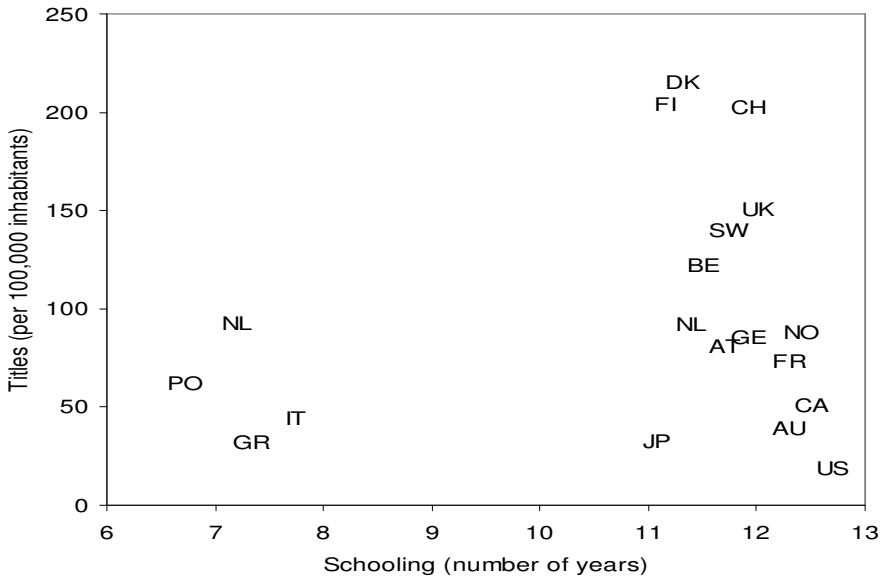
(3) With the exception of Belgium

Figure 1 Book titles, GDP per capita, schooling and population density

(a) Book titles and GDP per capita, 1990



(b) Book titles and level of schooling, 1990



(c) Book titles and population density, 1990

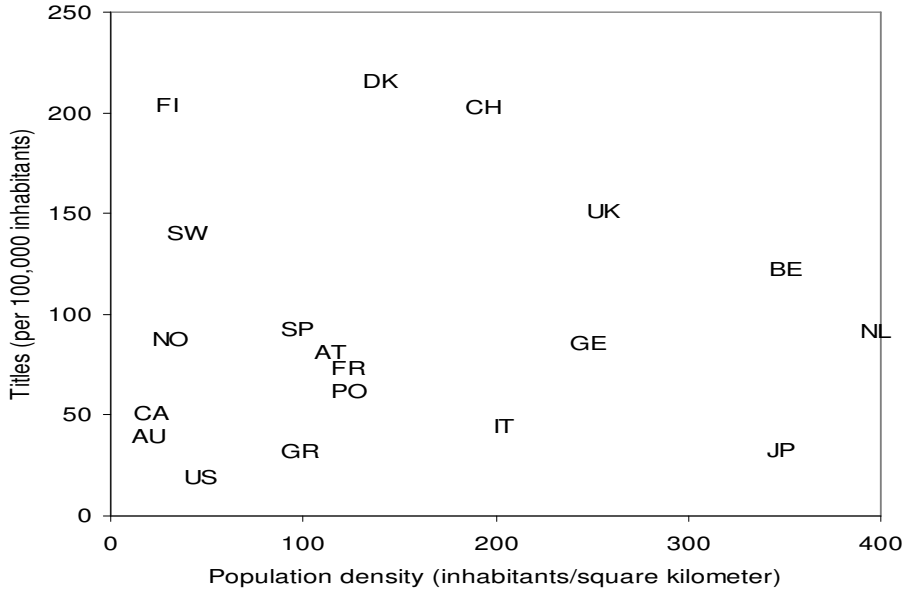


Figure 2 Welfare costs of the fixed book price agreement

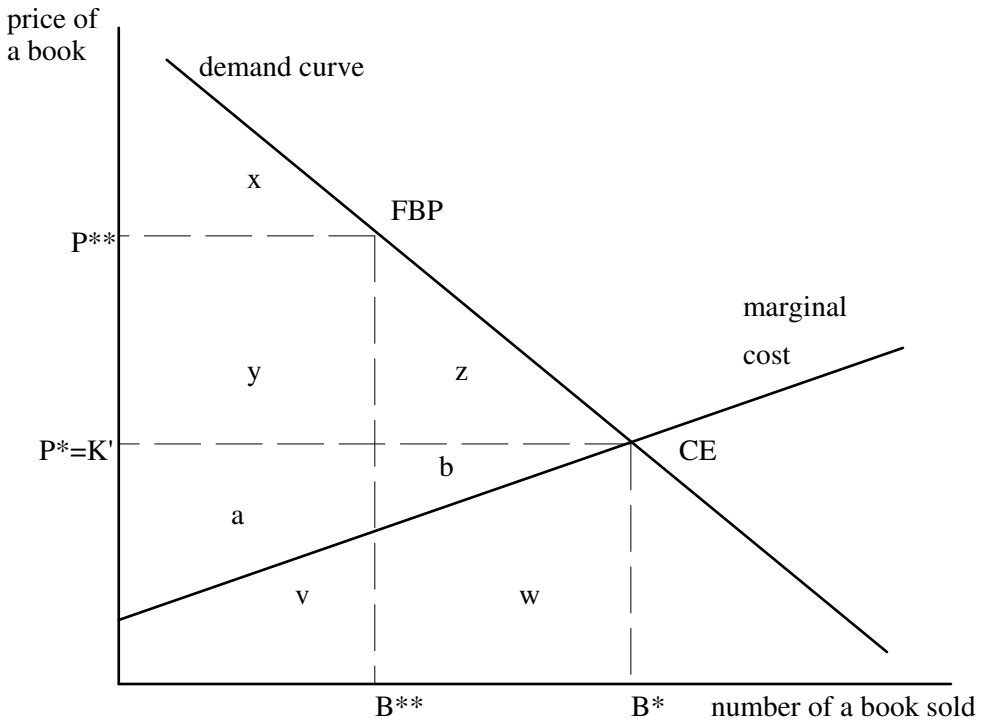
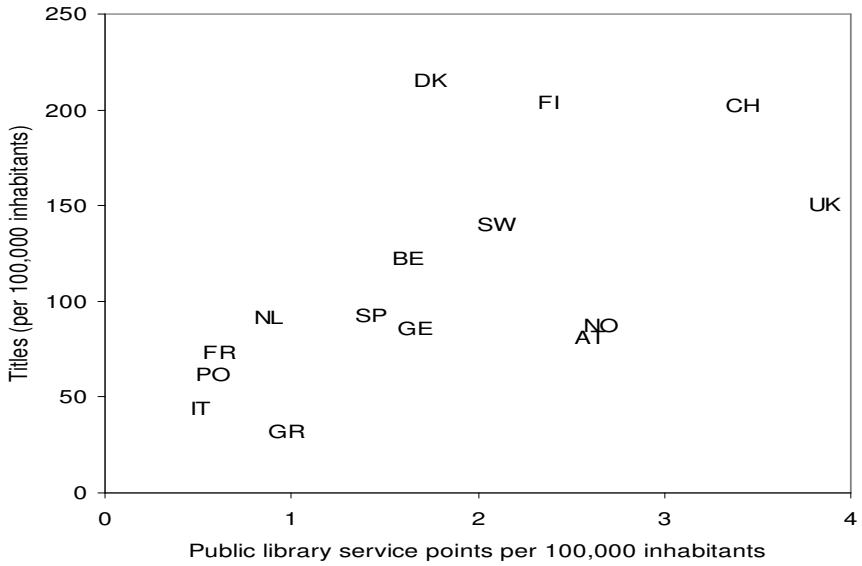


Figure 3 Book titles and public libraries

(a) Book titles and public library service points, 1990



(b) Book titles and public library loans, 1990

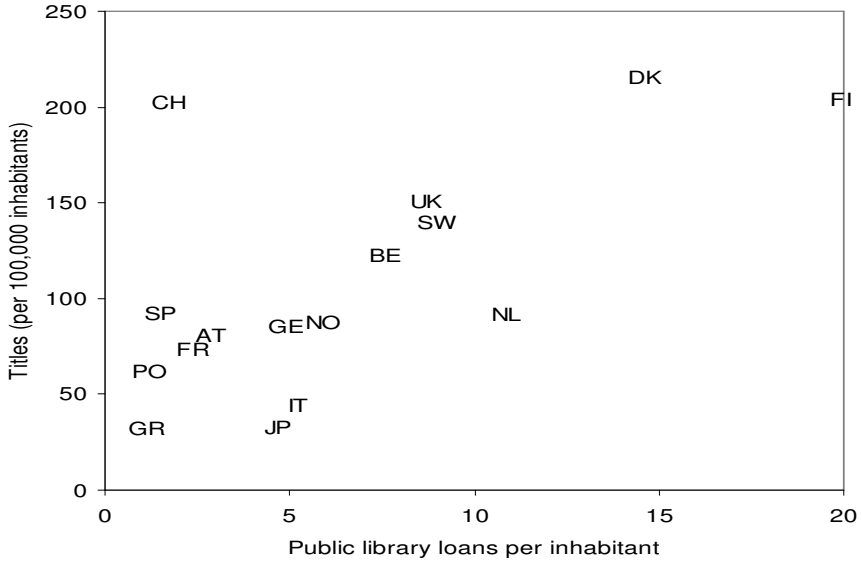


Figure 4 Number of book titles per 100,000 inhabitants, 1990-99